MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Basic Financial Statements, Required Supplementary Information and Supplementary Schedules

June 30, 2013

(With Independent Auditors' Report Thereon)

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

Members of the Board of Directors
Massachusetts Department of Transportation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise MassDOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of entities which represent 94%, 94% and 95% of the total assets, total net position and total revenues of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represents 4%, 2% and less than 1% of the total assets, total net position and total revenues of the aggregate remaining fund information and less than 1% of total assets, 1% of total net position, and 1% of total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities and funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of MassDOT, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 – 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The combining balance sheet and combining schedule of revenues, expenditures, and changes in fund balances on pages 98 and 99 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet and combining schedule of revenues, expenditures, and changes in fund balances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet and combining schedule of revenues, expenditures, and changes in fund balances are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MassDOT's internal control over financial reporting and compliance.

KPMG LLP

December 11, 2013

Management of the Massachusetts Department of Transportation (MassDOT) provides this Management's Discussion and Analysis to assist readers of its financial statements to better understand the financial activities of MassDOT for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with MassDOT's basic financial statements, which follow this section.

Overview of the Financial Statements

MassDOT's financial statements present two types of statements each with a different view of MassDOT's finances. This approach focuses on both MassDOT as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about MassDOT as a whole. The fund financial statements focus on the individual parts of MassDOT, reporting MassDOT's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance MassDOT's accountability. Also included in the report is the financial information about activities for which MassDOT acts solely as a trustee or agent for the benefit of those outside of the government. Two additional parts of the basic financial statements are the notes to the financial statements and the supplementary information, which is used to assist readers and investors in reviewing the MassDOT's general fund operations in more detail.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of MassDOT as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about MassDOT's financial situation and are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported regardless of the timing of cash flows. The government-wide financial statements include the following two statements:

> **Statement of Net Position** – Presents all of MassDOT's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as "net position". The net position is widely considered a good measure of MassDOT's financial health as increases and decreases in MassDOT's net position serve as a useful indicator of whether MassDOT's financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of MassDOT's infrastructure, ways and structures.
>
> **Statement of Activities** – Presents information showing how MassDOT's net position changed during the most recent fiscal year. Revenues, expenses, and gains/losses are reported for some items that will not result in cash flows until future fiscal periods (i.e., accounts receivable or earned but unused sick and vacation time). This statement also presents a comparison between direct expenses and program revenues for each division of MassDOT.

The government-wide financial statements present information in three columns in order to summarize MassDOT's activities. The types of activities presented are as follows:

> **Governmental Activities** – Most of MassDOT's basic services (which are primarily funded by toll revenues, contract assistance from the Commonwealth and other nonexchange revenues) are reported in this section by operational division, which are as follows: Highway, Registry of Motor Vehicles, Rail and Transit, and Aeronautics as well as shared services represented by the Office of the Secretary (previously presented as OPP).
>
> **Business-Type Activities** – The Massachusetts Bay Transportation Authority (MBTA) activities are reported here since a portion of their costs are recovered through user fees and charges to external users of goods and services.
>
> **Discretely Presented Component Units** – Separate legal entities for which MassDOT has financial accountability are included in this section. These entities consist of fifteen regional transit authorities (listed below) as well as the Route 3 North Transportation Improvements Association and operate similar to private sector companies and the business-type activities described above. The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

The fifteen regional transit authorities are as follows:

Berkshire Regional Transit Authority
Brockton Area Transit Authority
Cape Ann Transportation Authority
Cape Cod Regional Transit Authority
Franklin Regional Transit Authority
Greater Attleboro/Taunton Regional Transit Authority
Lowell Regional Transit Authority
Martha's Vineyard Transit Authority
Merrimack Valley Regional Transit Authority
Metrowest Regional Transit Authority
Montachusett Regional Transit Authority
Nantucket Regional Transit Authority
Pioneer Valley Transit Authority
Southeastern Regional Transit Authority
Worcester Regional Transit Authority

Fund Financial Statements

Users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been allocated to specific projects or activities. MassDOT uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

(Continued)

All of the funds of MassDOT can be divided into three categories as follows:

Governmental Funds – Most of the basic services provided by MassDOT are financed through governmental funds, which are defined as a set of accounts, focused on near-term inflows and outflows of resources to be spent. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating MassDOT's near-term financing requirements and it is based on the modified accrual basis of accounting. Such statements provide a detailed short-term view of MassDOT's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliations are presented on the page immediately following each respective governmental fund's financial statement.

MassDOT has several governmental funds; two of them, the Massachusetts Transportation Trust Fund (MTTF – General) and Highway Capital Projects fund are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds, which primarily consist of federal grant programs, Motor Vehicle Inspection Trust Fund, and Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund, are aggregated and presented as other governmental funds.

Proprietary Funds – MassDOT maintains two types of proprietary funds. The enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. MassDOT reports the MBTA as a major enterprise fund. An internal service fund is used to account for the Owner Controlled Insurance Program that was established to pay contractor's worker's compensation claims related to the Central Artery/Tunnel Project. The services provided by the internal service fund benefit the governmental function and, as a result, are included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for the business-type activity and the enterprise fund financial statements.

Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside MassDOT. Fiduciary funds are not reflected in the government-wide financial statements because the

resources of these funds are not available to support MassDOT's own programs. The full accrual basis of accounting is used for fiduciary funds.

MassDOT's fiduciary funds are the Other Post Employment Benefits (OPEB) Trust Fund and Agency funds, which are used to account for assets held in a custodial capacity.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data reported in the government-wide and fund financial statements.

Supplementary Information

The basic financial statements are followed by supplementary information. This section includes a combining balance sheet and schedule of revenues, expenditures and changes in fund balances for MassDOT's general fund (MTTF). The supplementary information provides details for the MTTF's Metropolitan Highway System, Western Turnpike, Tobin Bridge and Other Operations.

Government-Wide Financial Analysis

Net Position

The following table reflects the condensed net position based on the statement of net position found on page 21. It should be noted that, due to the implementation of GASB statements during Fiscal Year 2013, certain reclassifications have been made to the Fiscal Year 2012 balances to conform to the presentation used in Fiscal Year 2013.

Condensed Schedule of Net Position

June 30, 2013 and 2012

(In millions)

	Governmental activities		Business-type (MBTA) activities		Total primary government		Change year over year	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**Amount**	**%**
Current and other assets	$ 1,707	1,669	1,292	1,399	2,999	3,068	(69)	(2.2)%
Capital assets	22,320	22,134	8,280	8,159	30,600	30,293	307	1.0
Deferred outflows and derivative instruments	193	220	334	390	527	610	(83)	(13.6)
Total assets and deferred outflows	24,220	24,023	9,906	9,948	34,126	33,971	155	0.5
Long-term liabilities outstanding	2,852	2,906	6,821	6,977	9,673	9,883	(210)	(2.1)
Other liabilities	453	418	470	395	923	813	110	13.5
Total liabilities and deferred inflows	3,305	3,324	7,291	7,372	10,596	10,696	(100)	(0.9)
Net position, as restated:								
Net investment in capital assets	20,196	20,024	3,517	3,257	23,713	23,281	432	1.9
Restricted	764	767	20	19	784	786	(2)	(0.3)
Unrestricted	(45)	(92)	(922)	(700)	(967)	(792)	(175)	22.1
Total net position	$ 20,915	20,699	2,615	2,576	23,530	23,275	255	1.1%

Note: Prior year amounts have been re-stated due to GASB Statement 65 implementation

MassDOT's combined assets and deferred outflows (governmental and business-type activities) exceeded its liabilities and deferred inflows at June 30, 2013 by $23.5 billion (presented as net position). The main component of net position represents the net investment in capital assets, totaling $23.7 billion. The majority of capital assets were transferred to MassDOT by the Commonwealth in Fiscal Year 2010 as a result of transportation reform pursuant to the enabling legislation M.G.L. Ch.6C; however, the Commonwealth continues to finance the debt for these assets. MassDOT uses these capital assets to service the Commonwealth of Massachusetts; therefore, they are not available for future spending.

The net position for governmental activities increased from $20.7 billion at the end of Fiscal Year 2012 to $20.9 billion at the end of Fiscal Year 2013 mostly due to contributions of capital assets. Governmental activities current and other assets, totaling $1.7 billion, include cash and investments of $1.4 billion, net receivables of $341 million, as well as derivative instruments and other assets of $11 million. Governmental activities long-term liabilities totaling $2.8 billion, include all noncurrent liabilities, including due within one year portion. For this reason, long-term liabilities in the condensed schedule include $2.1 billion in bonds and notes payable, $359 million of derivative instruments, $179 million in accrued interest on capital appreciation bonds, as well as $174 million in environmental remediation, workers' compensation, compensated absences, and claims and judgments, which are listed as "other" liabilities in the statement of net position. Other liabilities ($453 million) within the condensed schedule include accounts payable and accrued expenses of $373 million, unearned revenue of $52 million, and accrued interest of $28 million.

The net position for business-type activities increased $39 million and is discussed further in the Changes to Net Position section.

The net decrease of $156 million in business-type activities long-term liability compared to the prior year is attributable to the higher principal payment of the Authority's general transportation system and revenue bonds in 2013. No bonds were issued by the Authority in Fiscal Year 2013.

Changes in Net Position

MassDOT's total primary government net position increased by $255 million in Fiscal Year 2013, of which the governmental activities net position increased by $216 million and the business-type activity increased by $39 million.

The changes of net position are based upon the statement found on page 22.

Condensed Schedule of Changes in Net Position

June 30, 2013 and 2012

(In millions)

	Governmental activities		Business-type activity (MBTA)		Total primary government		Change year over year	
	2013	2012	2013	2012	2013	2012	Amount	%
Revenues:								
Program revenues:								
Fees, fines, and charges for services	$ 452	450	630	529	1,082	979	103	10.5%
Operating grants and contributions	180	168	—	—	180	168	12	7.1
Capital grants and contributions	1,485	1,569	424	247	1,909	1,816	93	5.1
General revenues:								
Operating assistance from the Commonwealth	245	204	160	160	405	364	41	11.3
Taxes and assessments	—	—	943	931	943	931	12	1.3
Other income	—	—	53	34	53	34	19	55.9
Unrestricted investment income	2	3	15	44	17	47	(30)	(63.8)
Total revenues	2,364	2,394	2,225	1,945	4,589	4,339	250	5.8
Expenses:								
Highway	1,589	1,840	—	—	1,589	1,840	(251)	(13.6)
Office of the Secretary	156	142	—	—	156	142	14	9.9
Registry of Motor Vehicles	76	77	—	—	76	77	(1)	(1.3)
Rail and transit	201	152	—	—	201	152	49	32.2
Aeronautics	14	15	—	—	14	15	(1)	(6.7)
Debt service-interest	112	161	—	—	112	161	(49)	(30.4)
MBTA	—	—	2,186	2,103	2,186	2,103	83	3.9
Total expenses	2,148	2,387	2,186	2,103	4,334	4,490	(156)	(3.5)
Change in net position	216	7	39	(158)	255	(151)	406	(268.9)
Net position – beginning, as restated	20,699	20,692	2,576	2,734	23,275	23,426	(151)	(0.6)
Net position – ending	$ 20,915	20,699	2,615	2,576	23,530	23,275	255	1.1%

Note: Prior year amounts have been re-stated due to GASB Statement 65 implementation

Total Revenues

For the fiscal year ended June 30, 2013, total governmental activities revenues ($2.4 billion) for MassDOT are comprised of general revenues ($247 million) and program revenues ($2.1 billion), which include fees, fines and charges for services of $452 million, operating grants and contributions of $180 million and capital grants and contributions of $1.5 billion.

The governmental activities revenues overall decreased by $30 million from the prior year mostly due to a decrease in capital grants and contributions of $84 million, partially offset by an increase in operating grants and contributions of $12 million, and an increase in operating assistance from the Commonwealth of $41 million.

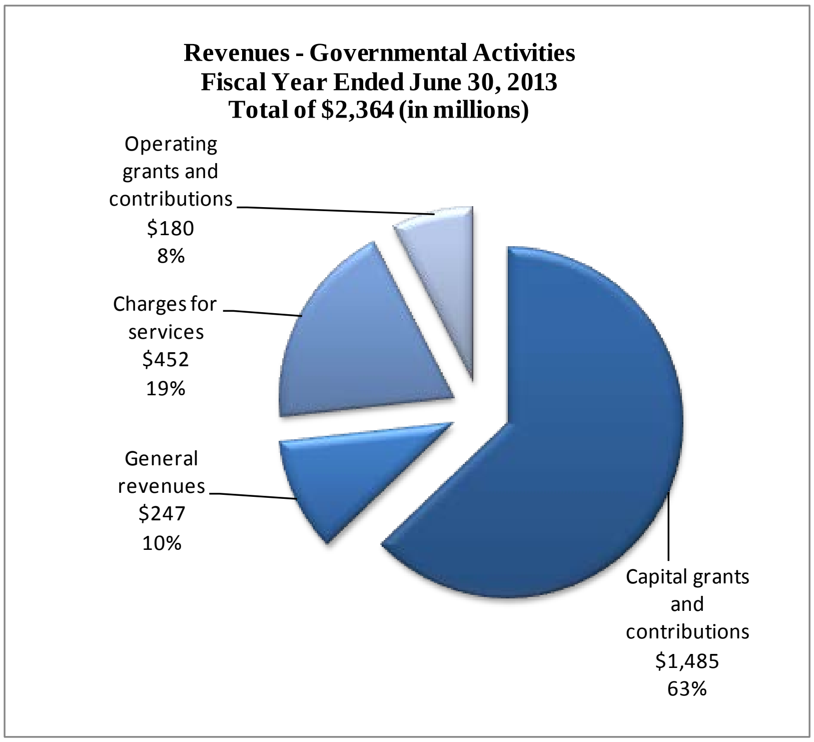


Figure 1

Program Revenue

Fees, fines, and charges for services were $452 million, an increase of $2 million from the prior year, and represent a variety of MassDOT revenues. The Highway division's portion totals $377 million and includes $310 million in toll revenues, $36 million in rental/lease revenue, and $31 million in departmental revenue such as advertising and highway-related permit fees.

Total toll revenues increased by $9 million from the prior year due to reclassification of $10 million toll violations revenue accounted from within departmental revenue last year and additional $6 million resulting from MassDOT's concerted efforts to collect fines for toll violations. This effort correlates with MassDOT's broader goals to improve business practices through technology and deliver more efficient services to our customers. Other future toll-related initiatives include implementation of All-Electronic Tolling (AET), the solution identified in "The Way Forward: A 21st Century Transportation Plan".

Operating grants and contributions of $180 million represent both contract assistance for debt service from the Commonwealth and federal grants from various federal agencies, such as Federal Transit Authority, Federal Rail Administration, and Federal Aviation Administration. These contributions are restricted for specific designated purposes and account for approximately 8% of the total MassDOT program revenues. The contributions increased by approximately $12 million in comparison with Fiscal Year 2012 mostly due to escalation of work on the "Knowledge Corridor – Restore Vermonter" project along the Connecticut River rail line in western Massachusetts. This project, coordinated between the Rail and Transit division and MBTA, is funded through a $70 million multi-year competitive grant awarded under the High Speed and Intercity Passenger Rail Program through the Federal Railroad Administration. Once completed, the project is expected to restore service to its original route and reduce overall travel time for the Vermonter service.

Capital grants and contributions of $1.5 billion include funding from the Commonwealth and federal agencies for projects such as the Accelerated Bridge Program (ABP), American Recovery and Reinvestment Act (ARRA) program, state wide road and bridge program, Chapter 90 local aid, Regional Transit Authority capital assistance and other capital programs. The majority of these programs are within the Highway division, which accounts for $1.2 billion, or 84%, of the overall capital grants and contributions.

General Revenue

General revenues, totaling $247 million, include operating assistance from the Commonwealth in the amount of $245 million and a gain on derivative instruments of approximately $2 million.

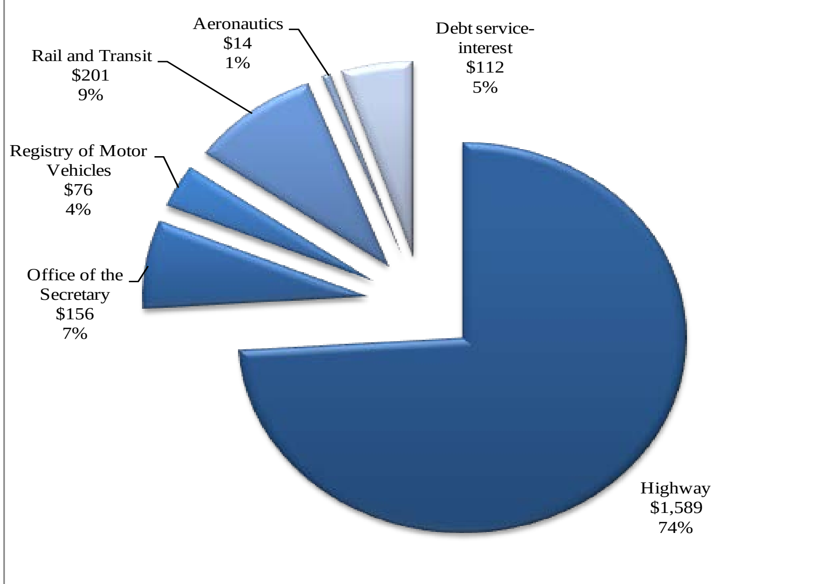
Several factors combined to cause the operating assistance increase of $41 million from the prior year. While MassDOT received an additional $3 million for the regional transit authorities and supplemental funding of $56 million for snow and ice operations due to the harsher winter, MassDOT's regular operations funding was reduced by $18 million, $13 million via the initial appropriations act and an additional $5 million decrease through Chapter 9C cuts. The Merit Rating Board's (MRB) funding had insignificant variation from the prior year. The MRB was previously a separate Commonwealth agency until Chapter 68 of the Acts of 2012, Section 8 updated the MassDOT governing legislation, M.G.L. Chapter 6C, to assume the operations of the MRB.

(Continued)

Expenses

For the fiscal year ended June 30, 2013, expenses for governmental activities totaled $2.1 billion. Overall, MassDOT's governmental activities expenses decreased by $239 million or 10% from the prior year. The reduction is due in part to a $49 million decrease in debt service interest resulting from prior year debt refunding transactions and continued low interest rates. Other contributing factors were a decrease in depreciation expense by $90 million due to a change in composition of capital assets between non-depreciable (land and construction in progress) and depreciable (infrastructure), as well as $196 million reduction in federal funding for capital projects, including ARRA projects ($60 million) and statewide road and bridge projects ($136 million). This decrease in federal funding resulted in a decline in fixed asset infrastructure additions and a reduction noncapitalizable Highway expenses.

Expenses - Governmental Activities
Fiscal Year Ended June 30, 2013
Total of $2,148 (in millions)



The Highway Division's operations continue to be one of the MassDOT's highest priorities and commitments, representing $1.6 billion or 74% of the total governmental activities expenses.

Another 21% of the total expenses are attributable to the Office of the Secretary with $156 million, the Rail and Transit Division with $201 million, and debt service interest expenses of $112 million. The Registry of Motor Vehicles (RMV) and Aeronautics complete the operational spending pattern with a total of $90 million or 5%. Part of MassDOT's "The Way Forward: A 21st Century Transportation Plan" includes the modernization of the Registry. This transformation includes several initiatives: increasing online transactions, which represent about

25% of transactions, possibly replacing current branch offices with a smaller network of regional and commercial centers, and potentially providing self-service options in both RMV and appropriate commercial locations.

Business-Type Activity

The net position for business-type activities is $2.6 billion, an increase of $39 million from the prior year. The Authority's total expenses of $2.2 billion (increased by $83 million from last year primarily due to increased labor and benefits, and contracted transit service costs), exceeded its operating revenue by $1.6 billion. Nonoperating revenue of $1.2 billion million along with capital grants and contributions of $424 million reversed the operating loss and resulted in an increase of $39 million in net position.

Government Funds Financial Analysis

As noted earlier, MassDOT uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As of the end of the current fiscal year, MassDOT's governmental funds (MTTF, major capital projects, and other nonmajor governmental) reported a combined ending fund balance of $1.2 billion (see page 23). Of this amount, $3 million are nonspendable for prepaid expenditures. Another $1.2 billion was restricted; this consists of debt service payments and grants or bonded projects that are dictated by external sources. $26 million has been assigned for specific purposes such as insurance reserve and turnpike operations. All these funds are incorporated in the annual budget and approved by the MassDOT Board of Directors. The remainder of the fund balance, $6 million in "Unassigned", has decreased by $11 million due to a combination of a decrease in contract assistance in the MTTF fund, a use of reserves, and higher than expected spending in snow and ice operations in Fiscal Year 2013.

The MTTF (general fund) is the chief operating fund of MassDOT. The MTTF's fund balance has increased by $52 million or 7% over the prior year as a result of the fund's revenues and other financing sources exceeding the fund's expenditures mostly due to $9 million increase in toll revenues, $7 million in proceeds from sale of land, $56 million in additional snow and ice funding from the Commonwealth, partially offset by a reduction of $18 million for the Commonwealth contract assistance. Thus, at the end of the current year the total fund balance was $806 million, comprised of $775 million (96%) in restricted, $21 million in assigned, $6 million in unassigned and $3 million in nonspendable.

As a measure of liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures within the general fund. Unassigned fund balance represents less than 1% of total general fund expenditures, while total fund balance represents 103% of the total general fund expenditures.

In addition to the MTTF, MassDOT has established the Highway Capital Projects fund as a major governmental fund. The Highway Capital Projects fund accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth. At the end of Fiscal Year 2013, the total fund balance was $41 million, a reduction of

$12 million from the prior fiscal year due entirely to transportation infrastructure fund expenditures exceeding the fund revenues.

The other nonmajor governmental funds are special revenue projects used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Projects within this category include federal grants, Motor Vehicle Inspection Trust activity, and the Central Artery/Tunnel Project Repair and Maintenance Trust activity. At the end of Fiscal Year 2013, the total fund balance was $403 million.

Proprietary Funds

The Proprietary Funds Statement of Fund Net Position provides the same type of information found in the government-wide statements, but in more detail. MassDOT's proprietary funds include the MBTA (a blended component unit), as a major enterprise fund, and the Owner Controlled Insurance Program (OCIP), an internal service fund. See pages 27 – 29 for the proprietary fund statements.

The net position of the MBTA at the end of the year totaled $2.6 billion, which consisted of $3.5 billion in net investments in capital assets, $19 million restricted for other purposes, and a deficit of $922 million in unrestricted net assets. OCIP's net position at the end of the year totaled $9 million, an increase of $3 million from the prior year; the full net position is considered restricted for other purposes in this fund.

Governmental Funds – MTTF General Fund

MTTF Budgetary Highlights

Funding for MassDOT's general fund (MTTF) operations is dependent in part upon operating assistance from the Commonwealth of Massachusetts' Commonwealth Transportation Fund (CTF), toll operations, and other departmental revenues.

MassDOT submits its general fund (MTTF) budget to the Standing Committee on Finance and Audit for review and to the MassDOT Board of Directors for final approval. The Board approved $793 million to cover Fiscal Year 2013 operations.

The following are some of the major fiscal year highlights:

1. The Commonwealth Transportation Fund (CTF) operating transfer to the MTTF was reduced by $18 million in Fiscal Year 2013, which includes $5 million in Chapter 9C reductions.

2. The Merit Rating Board, which was transferred to MassDOT's Registry of Motor Vehicles division, via Chapter 68 of the Acts of 2012, was appropriated $8 million.

3. The Commonwealth contract assistance appropriated $18 million for the regional transit authorities (RTA's), an increase of $3 million.

4. A transfer from the Motor Vehicle Inspection Trust fund for $51 million to assist the MBTA and Regional Transit Authorities.

5. MassDOT received supplemental funding from the Commonwealth in the amount of $56 million to address snow and ice operations that increased due to harsher weather.

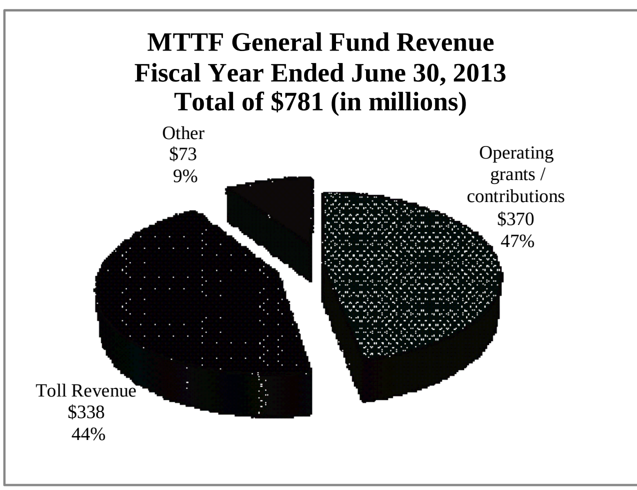
6. The toll revenue budget was increased by 1% over Fiscal Year 2012.

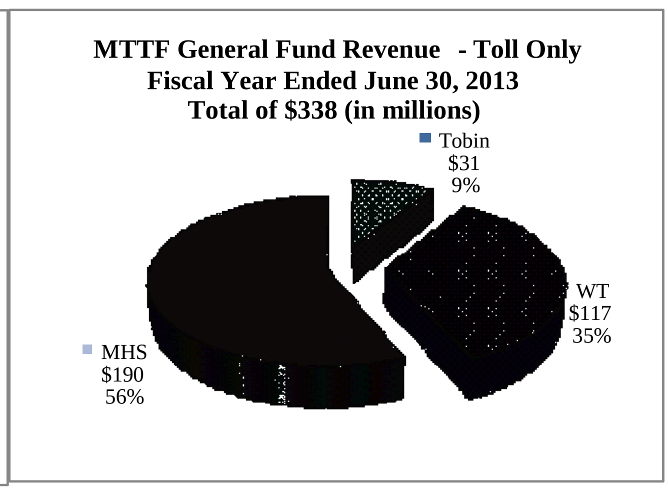
MTTF Revenues

MTTF (General fund) revenues totaled $781 million in the Fiscal Year 2013, an increase of $35 million or 6% from Fiscal Year 2012. The Commonwealth Transportation Fund (CTF) revenues of $370 million and toll revenues of $338 million combine for 91% of the total revenues. The remaining 9% consists of rental/lease revenue, investment income, and departmental and other revenues including advertising, highway-related permit, and other fees.

The CTF revenues consist of $100 million dedicated for Metropolitan Highway System bonds (through Chapter 27, Section 9 of the Acts of 2009), $25 million for the operations and maintenance of portions of the Central Artery and the Central Artery North Area and $245 million for operations funding. This operations funding included $162 million for MassDOT's operations, $19 million for RTA's contract assistance, $8 million for the MRB, and $56 million for additional snow and ice operations. The regular operations funding was decreased by $18 million ($13 million in initial appropriation and an additional $5 million in Chapter 9C cuts) overall from the prior year.

The $338 million in toll revenue consists of pledged revenue for the Metropolitan Highway System (MHS) of $190 million and $117 million for the Western Turnpike (WT), as well as unpledged revenue of $31 million for the Tobin Bridge operations.





MTTF Expenditures

During Fiscal Year 2013, the general fund total expenditures increased by 19% from $660 million to $787 million. The major contributing factors were the one time assistance to the MBTA and regional transit

authorities of $51 million, an increase of over $50 million in snow and ice operations, and an increase in infrastructure maintenance and other improvements, such as the Tobin Bridge structural repainting project that totaled $20 million in Fiscal Year 2013 and is part of the Capital Maintenance Program for the Highway Division's toll roads.

Snow "Mega" Plow, Highway Division District 2, West Springfield, November 16, 2012

MassDOT debuted the Tow Plow, a snow clearing machine that can clear 2.5 travel lanes in a single pass, instead of the standard width which is less than one lane.

Source: http://www.flickr.com/photos/massdot/8191718598/

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2013, MassDOT's combined capital assets, totaling $30.6 billion (net of depreciation) consisted of $22.3 billion in governmental activities and $8.3 billion in business-type activity. MassDOT's capital assets include land, construction in progress, infrastructure, ways and structures, buildings, equipment, vehicles, and software as shown in the table below.

MassDOT Capital Assets – at Year End, Net of Depreciation

(In millions)

	Governmental activities		Business-type activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Land	$ 889	778	312	312	1,201	1,090
Construction in progress	3,931	3,497	700	525	4,631	4,022
Infrastructure, ways and structures	17,394	17,766	6,226	6,177	23,620	23,943
Buildings	56	62	926	1,026	982	1,088
Machinery and Equipment	46	28	116	119	162	147
Software	4	3	—	—	4	3
Total	$ 22,320	22,134	8,280	8,159	30,600	30,293

Within governmental activities, construction in progress (CIP) increased by $434 million due to improvements on on-going CIP projects of $709 million, which were partially offset by completed projects transferred to infrastructure. Among those completed projects were ARRA and Accelerated Bridge Program (ABP) projects, statewide road and bridge projects, and toll-road related projects. The governmental activities net book value of infrastructure decreased mainly due to the increase in accumulated depreciation of the existing roads and bridges, partially offset by the increase in infrastructure for completed projects that transitioned from CIP.

The ABP was designed to reduce the number of structurally deficient bridges in the state system. As of June 2013, the number of structurally deficient bridges owned by MassDOT and Department of Conservation and Recreation, a partner of the ABP program, were 465, down from a high of 543 in 2008 before the program began. By the end of the eight year program, over 200 bridges are planned on being repaired or replaced.

Shown on the left is a rendering of the Fore River Bridge, which carries Route 3A over the Fore River between Quincy and Weymouth. Construction of the new vertical lift bridge began in March of 2013 and will complete in September 2016. This $244 million project is part of MassDOT's Accelerated Bridge Program.

Source: http://www.massdotprojectsforeriverbridge.info/bridgeviews.html

Additional information on MassDOT’s capital assets can be found in notes 4 and 21.

Debt

At year-end, MassDOT had $7.6 billion in outstanding bonds and notes compared to $7.8 billion last year.

MassDOT Outstanding Bonds and Notes at Year End

(In millions)

	Governmental activities		Business-type activities (MBTA)		Total	
	2013	2012	2013	2012	2013	2012
General Transportation System Bonds (GTS)	$ —	—	389	495	389	495
Boston Metropolitan District (BMD)	—	—	4	6	4	6
Revenue	2,092	2,147	4,243	4,329	6,335	6,476
Revenue Build America (BABs)	—	—	428	428	428	428
Bond Anticipation Notes (BANs)	—	—	107	118	107	118
Metropolitan Boston Transit Parking (MBTPC)	—	—	305	305	305	305
Total	$ 2,092	2,147	5,476	5,681	7,568	7,828

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. Standard & Poor’s Corporation (S&P) and Fitch rate the MassDOT Capital Appreciation Bonds as A+, and Moody’s Investors Services Inc. (Moody’s) rates them an A3. MassDOT senior fixed rate bonds are rated A+ by S&P and Fitch and A3 by Moody’s. MBTA (business-type activity) bond ratings for revenue bonds and BABs are AAA, GTS bonds are AA+, and MBTPC are A+.

Additional information on MassDOT’s debt can be found in notes 5 and 22.

Economic Factors and Next Year’s Budgets and Rates

MassDOTs “The Way Forward: A 21st Century Transportation Plan”, launched in January 2013, was a major step in transportation reform. The Transportation Finance Bill, Chapter 46 of the Acts of 2013, passed by the legislature, will have a major impact on future budgets. The legislation directs MassDOT to reinstate tolls on the Western Turnpike, interchanges 1 through 6, effective October 15, 2013, which is expected to generate approximately $11 million in Fiscal Year 2014 and $16 million annually thereafter.

The bill also included changes impacting the Commonwealth Transportation Fund (CTF), which provides MassDOT with its operating assistance each year. The gas tax was raised 3 cents and is tied to the consumer price index to provide dedicated annual increases. This increase is expected to generate $100 million annually to start and progress up to $150 million annually by 2018. In addition, all sales taxes from the sale of motor vehicles are now directed to the CTF.

The finance bill also called for transportation reform initiatives such as forward funding ($80 million in Fiscal Year 2014) the Regional Transit Authorities (RTA's) thus ending the practice of budgeting in arrears, allowing the RTA's to pay down Revenue Anticipation Notes (RANs) associated with state contract assistance, resulting in some savings.

The Transportation Finance Bill mandates MassDOT to end the practice of funding operating costs, such as salaries, rent, utilities, etc. with capital funds. The legislation dictates that MassDOT transfer the employees and other operating expenses from capital funding to operating funding over a three year period. MassDOT must transfer 20% of the capital funded employees to operating in Fiscal Year 2014, 60% in Fiscal Year 2015, and the final 20% in Fiscal Year 2016. The Legislature appropriated approximately $40 million for this purpose in Fiscal Year 2014.

Future Pronouncements

GASB has issued Statement Nos. 66 – 70, which have various effective dates. These Statements are not expected to have a significant impact on MassDOT's financial statements.

Contacting MassDOT's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MassDOT's finances and to show MassDOT's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to MassDOT's Chief Financial Officer at: 10 Park Plaza, Suite 5450, Boston, Massachusetts, 02116.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position

June 30, 2013

(Dollars in thousands)

Assets and Deferred Outflows of Resources		**Primary government** Governmental activities	Business-type activities	Total	**Component units**
Current assets:					
Cash and short-term investments	$	48,073	249,018	297,091	19,688
Restricted cash and investments		997,957	76,881	1,074,838	13,520
Derivative instrument		6,007	—	6,007	—
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		298,488	79,528	378,016	71,486
Due from federal government		12,557	31,117	43,674	26,132
Other		30,548	32,674	63,222	73,121
Other assets		5,375	47,552	52,927	7,292
Total current assets		1,399,005	516,770	1,915,775	211,239
Noncurrent assets:					
Restricted cash and investments		307,530	713,035	1,020,565	—
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		—	—	—	1,604
Other		—	—	—	5,881
Other assets		—	61,704	61,704	2,492
Capital assets:					
Nondepreciable		4,820,051	1,012,158	5,832,209	45,450
Depreciable, net of accumulated depreciation		17,500,249	7,267,823	24,768,072	347,661
Total noncurrent assets		22,627,830	9,054,720	31,682,550	403,088
Total assets		24,026,835	9,571,490	33,598,325	614,327
Deferred outflows of resources:					
Loss on debt refundings		67,485	231,149	298,634	—
Derivative instruments		125,373	103,539	228,912	—
Total deferred outflows of resources		192,858	334,688	527,546	—
Total assets and deferred outflows of resources	$	24,219,693	9,906,178	34,125,871	614,327
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Accounts payable and accrued expenses	$	373,128	294,698	667,826	50,767
Unearned revenue		52,003	—	52,003	705
Accrued interest		28,060	132,530	160,590	1,485
Bonds and notes payable		57,162	365,445	422,607	133,628
Compensated absences		—	—	—	76
Capital lease obligations		—	42,651	42,651	—
Other liabilities		33,328	—	33,328	123
Total current liabilities		543,681	835,324	1,379,005	186,784
Noncurrent liabilities:					
Accrued interest on capital appreciation bonds		179,000	—	179,000	—
Bonds and notes payable		2,082,416	5,434,164	7,516,580	34,808
Compensated absences		—	—	—	540
Liability for derivative instruments		358,475	117,812	476,287	—
Capital lease obligations		—	72,005	72,005	—
Net OPEB and pension obligation		—	715,900	715,900	12,117
Other liabilities		141,217	115,763	256,980	8,474
Unearned revenue		—	—	—	1,418
Total noncurrent liabilities		2,761,108	6,455,644	9,216,752	57,357
Total liabilities		3,304,789	7,290,968	10,595,757	244,141
Deferred inflows of resources:					
Gain on debt refundings		—	258	258	—
Total liabilities and deferred inflows of resources		3,304,789	7,291,226	10,596,015	244,141
Net Position					
Net investment in capital assets		20,196,616	3,517,146	23,713,762	393,376
Restricted		763,781	19,402	783,183	5,694
Unrestricted (Deficit)		(45,493)	(921,596)	(967,089)	(28,884)
Total net position	$	20,914,904	2,614,952	23,529,856	370,186

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Activities

Fiscal year ended June 30, 2013

(Dollars in thousands)

Functions/programs	Expenses	Program revenues: Fees, fines, and charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net (expense)/revenue and changes in net position — Primary government: Governmental activities	Primary government: Business-type activities	Primary government: Total	Component units
Primary government:								
Governmental activities:								
Highway	$ 1,589,014	377,774	24,381	1,240,215	53,356	—	53,356	—
Office of the Secretary	155,654	40,004	5,869	99,375	(10,406)	—	(10,406)	—
Registry of motor vehicles	76,043	32,569	1,240	1,002	(41,232)	—	(41,232)	—
Rail and Transit	200,955	1,669	46,515	131,287	(21,484)	—	(21,484)	—
Aeronautics	13,989	18	—	13,285	(686)	—	(686)	—
Debt service – interest	111,731	—	101,547	—	(10,184)	—	(10,184)	—
Total governmental activities	2,147,386	452,034	179,552	1,485,164	(30,636)	—	(30,636)	—
Business-type activities:								
Massachusetts Bay Transportation Authority	2,186,205	630,235	—	424,416	—	(1,131,554)	(1,131,554)	—
Total primary government	$ 4,333,591	1,082,269	179,552	1,909,580	(30,636)	(1,131,554)	(1,162,190)	—
Component units:								
Aggregate component units	$ 360,264	177,633	140,795	60,849	—	—	—	19,013
General revenues:								
Operating assistance from the Commonwealth					$ 244,600	160,000	404,600	—
Taxes and assessments					—	942,788	942,788	—
Other income (expense)					(304)	52,855	52,551	—
Unrestricted investment income					2,197	15,293	17,490	
Total general revenues					246,493	1,170,936	1,417,429	—
Change in net position					215,857	39,382	255,239	19,013
Net position – beginning of year, as restated					20,699,047	2,575,570	23,274,617	351,173
Net position – end of year					$ 20,914,904	2,614,952	23,529,856	370,186

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Governmental Funds

Balance Sheet

June 30, 2013

(Dollars in thousands)

Assets		MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Cash and short-term investments	$	48,047	—	26	48,073
Restricted cash and investments		844,921	40,971	399,006	1,284,898
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		—	298,488	—	298,488
Due from federal government		97	—	12,460	12,557
Other		30,548	—	—	30,548
Other assets		2,677	—	—	2,677
Total assets	$	926,290	339,459	411,492	1,677,241
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued expenditures	$	62,095	298,604	8,958	369,657
Unearned revenue		58,633	—	—	58,633
Total liabilities		120,728	298,604	8,958	428,290
Fund balances:					
Nonspendable		2,677	—	—	2,677
Restricted		775,180	40,855	397,796	1,213,831
Assigned		21,559	—	4,738	26,297
Unassigned		6,146	—	—	6,146
Total fund balances		805,562	40,855	402,534	1,248,951
Total liabilities and fund balances	$	926,290	339,459	411,492	1,677,241

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position

June 30, 2013

(Dollars in thousands)

Total governmental fund balances (page 23)	$	1,248,951
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		22,320,300
Receivables that are measurable but not available are deferred in the governmental funds but recognized as revenue on a full accrual basis.		6,630
Capitalized loss on debt refunding in governmental activities that is not capitalized in the governmental funds.		67,485
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.		(207,060)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable, net		(2,139,578)
Workers' compensation claims		(21,998)
Other claims and judgments		(95,000)
Compensated absences		(45,624)
Environmental remediation		(1,523)
Derivative instruments, net		(227,095)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.		9,416
Net position of governmental activities (page 21)	$	20,914,904

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2013

(Dollars in thousands)

	MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Revenues:				
Toll revenue:				
Pledged as security for revenue bonds	$ 306,693	—	—	306,693
Unpledged	31,017	—	—	31,017
Commonwealth transportation fund:				
Operations	244,600	—	—	244,600
Metropolitan highway system bonds	100,000	—	—	100,000
Central artery operations and maintenance	25,000	—	—	25,000
Commonwealth grants and contract assistance	36	1,046,770	2,117	1,048,923
Federal grants and reimbursements:				
Passed through the Commonwealth	—	430,022	—	430,022
Direct	146	7,751	48,490	56,387
Rental/lease income	39,762	—	—	39,762
Investment income	2,961	103	1,747	4,811
Departmental and other	31,084	1,159	40,689	72,932
Total revenues	781,299	1,485,805	93,043	2,360,147
Expenditures:				
Current:				
Highway	403,064	1,253,510	12,334	1,668,908
Office of the Secretary	51,949	100,449	2,273	154,671
Registry of motor vehicles	59,345	1,013	15,617	75,975
Rail and Transit	121,736	132,705	46,546	300,987
Aeronautics	540	12,905	516	13,961
Debt service:				
Principal	55,045	—	—	55,045
Interest	95,405	—	—	95,405
Total expenditures	787,084	1,500,582	77,286	2,364,952
Excess (deficiency) of revenues over expenditures	(5,785)	(14,777)	15,757	(4,805)
Other financing sources (uses):				
Transfers in	51,000	44	—	51,044
Transfers out	—	—	(51,000)	(51,000)
Sale of capital assets	6,924	2,406	—	9,330
Total other financing sources (uses)	57,924	2,450	(51,000)	9,374
Net change in fund balances	52,139	(12,327)	(35,243)	4,569
Fund balances at beginning of year	753,423	53,182	437,777	1,244,382
Fund balances at end of year	$ 805,562	40,855	402,534	1,248,951

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Reconciliation of the Statement of Revenues, Expenditures And
Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Fiscal year ended June 30, 2013

(Dollars in thousands)

Net change in fund balances – total governmental funds (page 25)	$	4,569
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period:		
Capital outlays		811,172
Depreciation		(615,729)
In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the disposed capital assets.		(9,634)
Certain revenues in the statement of activities that do not provide current financial resources are not recognized in the statement of revenues, expenditures and changes in fund balances. As a result, the recognition of revenue for certain accounts receivable differ between the two statements. This amount represents the net change in unearned revenue.		1,630
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are capitalized and amortized in the statement of activities. These amounts represent the related activity of the current period:		
Bond maturities		55,045
Amortization and net effect of premiums, deferred losses on refunding transactions and discounts		(862)
Derivatives are reported in the government-wide statements but are not reported in the governmental funds. This amount represents the net changes in the derivative instruments and the amortization of hedging derivative premiums.		1,770
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.		(15,463)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes in accruals:		
Workers' compensation		479
Compensated absences		(656)
Claims and judgments		(20,000)
Environmental remediation		460
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The net activity of the internal service fund is reported with governmental activities.		3,076
Changes in net position of governmental activities (page 22)	$	215,857

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds

Statement of Fund Net Position

June 30, 2013

(Dollars in thousands)

Assets and Deferred Outflows of Resources	Business-type activities – enterprise fund MBTA	Governmental activities – internal service fund
Current assets:		
Unrestricted cash and short-term investments	$ 249,018	—
Restricted cash and investments	76,881	20,590
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	79,528	—
Due from federal government	31,117	—
Other	32,674	—
Other assets	47,552	2,698
Total current assets	516,770	23,288
Noncurrent assets:		
Restricted cash and investments	713,035	—
Lease accounts	61,704	—
Capital assets:		—
Nondepreciable	1,012,158	—
Depreciable, net of accumulated depreciation	7,267,823	—
Total noncurrent assets	9,054,720	—
Total assets	9,571,490	23,288
Deferred outflows of resources:		
Loss on debt refundings	231,149	—
Derivative instruments	103,539	—
Total deferred outflows of resources	334,688	—
Total assets and deferred outflows of resources	$ 9,906,178	23,288
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable and accrued expenses	$ 294,698	3,472
Accrued interest	132,530	—
Bonds payable	365,445	—
Capital lease obligations	42,651	—
Other liabilities	—	2,700
Total current liabilities	835,324	6,172
Noncurrent liabilities:		
Bonds payable	5,434,164	—
Capital lease obligations	72,005	—
Net OPEB and pension obligation	715,900	—
Liability for derivative instruments	117,812	—
Other liabilities	115,763	7,700
Total noncurrent liabilities	6,455,644	7,700
Total liabilities	7,290,968	13,872
Deferred inflows of resources:		
Gain on debt refundings	258	—
Total liabilities and deferred inflows of resources	$ 7,291,226	13,872
Fund Net Position		
Net investment in capital assets	$ 3,517,146	—
Restricted	19,402	9,416
Unrestricted (deficit)	(921,596)	—
Total net position	$ 2,614,952	9,416

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Position

Fiscal year ended June 30, 2013

(Dollars in thousands)

	Business-type activities – enterprise fund MBTA	Governmental activities – internal service fund
Operating revenues:		
Revenue from transportation	$ 564,560	—
Other	65,675	—
Total operating revenues	630,235	—
Operating expenses:		
Salaries and benefits	830,553	—
Materials, supplies and services	208,589	—
Injuries and damages	28,994	(3,072)
Commuter railroad and local subsidy expense	453,954	—
Other	7,511	—
Depreciation and amortization	372,947	—
Total operating expenses	1,902,548	(3,072)
Operating income (loss)	(1,272,313)	3,072
Nonoperating revenues (expenses):		
Dedicated sales tax	786,867	—
Contract assistance – Commonwealth of Massachusetts	160,000	—
Dedicated local assessments	155,921	—
Fair value change in investment derivatives	4,564	—
Other nonoperating income	48,291	44
Interest income	15,293	4
Interest expense	(283,657)	—
Total nonoperating revenues (expenses), net	887,279	48
Income (loss) before capital grants and contributions and transfers	(385,034)	3,120
Capital grants and contributions	424,416	—
Transfers out	—	(44)
Increase in net position	39,382	3,076
Net position at beginning of year, as restated	2,575,570	6,340
Net position at end of year	$ 2,614,952	9,416

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds

Statement of Cash Flows

Fiscal year ended June 30, 2013

(Dollars in thousands)

	Business-type activities – enterprise fund MBTA	Governmental activities – internal service fund
Cash flows from operating activities:		
Receipts from customers and users	$ 566,643	—
Receipts from other operations	66,502	—
Payments to suppliers and vendors	(815,022)	—
Payments to employees	(479,562)	—
Claims, premiums and judgments paid	—	(202)
Net cash used in operating activities	(661,439)	(202)
Cash flows from capital and related financing activities:		
Additions to transportation property	(496,943)	—
Interest paid	(270,991)	—
(Increase)decrease in deferred credit/charges	2,600	—
Commercial paper advances	20,000	—
Payments on debt	(233,645)	—
Receipts from (payments to) bond construction and reserve accounts	101,475	—
Payments of capital lease activity	(34,511)	—
Decrease in lease deposit/account	7,628	—
Capital grants	408,137	—
Other	(1,944)	—
Net cash used in capital and related financing activities	(498,194)	—
Cash flows from noncapital and related financing activities:		
Sales tax and local assessment	1,143,375	—
Reimbursable payments	29,577	—
Net cash from noncapital financing activities	1,172,952	—
Cash flows from investing activities:		
Proceeds from sales of investments	—	30,019
Purchases of investments	—	(18,248)
Investment income (loss)	57,456	9
Net cash from investing activities	57,456	11,780
Net change in cash and short-term investments	70,775	11,578
Cash and cash equivalents, restricted and other special accounts, beginning of year	255,124	9,012
Cash and cash equivalents, restricted and other special accounts, end of year	$ 325,899	20,590
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	$ (1,272,313)	3,072
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Charges not requiring current expenditure of cash:		
Depreciation	372,947	—
Increase in pension liability	20,803	—
Increase in net OPEB liability	122,880	—
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	94,244	(3,274)
Total adjustments	610,874	(3,274)
Net cash used in operating activities	$ (661,439)	(202)

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Fiduciary Funds

Statement of Net Position

June 30, 2013

(Dollars in thousands)

		Other post-employment benefits trust	Agency funds
Assets:			
Cash and short-term investments	$	6,714	88,443
Investments:			
U.S. Treasury bonds		6,118	—
U.S. agency securities		8,295	—
Corporate bonds		6,636	—
Other fixed income securities		4,231	—
Equity securities		41,940	—
Receivables:			
Interest and other		2,327	20,396
Total assets		76,261	108,839
Liabilities:			
Payable for investments purchased		8,252	—
Other liabilities		314	108,839
Total liabilities		8,566	108,839
Net position:			
Held in trust for other post employment benefits	$	67,695	—

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Fiduciary Fund

Statement of Changes in Net Position

Fiscal year ended June 30, 2013

(Dollars in thousands)

		Other post-employment benefits trust
Additions:		
Net investment income:		
Net appreciation in fair value of investments	$	3,109
Interest		787
Dividends		913
Total investment income		4,809
Less investment expense		(188)
Net investment income		4,621
Deductions:		
Employee benefits		314
Change in net position		4,307
Net position at beginning of year		63,388
Net position at end of year	$	67,695

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

The Massachusetts Department of Transportation (MassDOT) was established by Chapter 25 of the Acts of 2009 of the Commonwealth of Massachusetts (as amended, the Transportation Reform Act), which was enacted and approved in June 2009. The Transportation Reform Act was designed to reform the transportation system of the Commonwealth of Massachusetts (the Commonwealth) and created the new authority, MassDOT, through enactment of Chapter 6C of Massachusetts General Laws (the Enabling Act). MassDOT has a separate legal existence from the Commonwealth and is governed by a board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer.

On August 10, 2012, the Governor approved Chapter 242 of the Acts of 2012, section 3(b) of the legislation revised the governance of MassDOT from a five-member to a seven-member board appointed by the Governor. Each member shall be appointed for a four–year term, with the Secretary of Transportation serving as an ex officio director. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

MassDOT was created through the transfer of the assets, liabilities and equity of:

1. The former Massachusetts Turnpike Authority (including both the Metropolitan Highway System and the Western Turnpike), which was dissolved as part of the legislation

    a. The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel (CA/T Project), the Central Artery North Area (CANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.

    b. MassDOT assumed the rights, powers, and duties of the former Massachusetts Turnpike Authority upon the November 1, 2009 transfer

2. The operations of the Massachusetts Highway Department of the Commonwealth

3. The operations of the Massachusetts Aeronautic Commission

4. The operations of the Registry of Motor Vehicles of the Commonwealth

5. The operations of the Executive Office of Transportation of the Commonwealth

6. Certain assets of the Department of Conservation and Recreation (DCR) of the Commonwealth

In addition, the Tobin Bridge (including its associated land and buildings) was transferred from the Massachusetts Port Authority (effective January 1, 2010).

The Merit Rating Board was transferred to MassDOT's Registry of Motor Vehicles division via Chapter 68 of the Acts of 2012.

MassDOT has four divisions, including Highway, Rail and Transit, Aeronautics, and the Registry of Motor Vehicles, which includes the Merit Rating Board, that share administrative functions such as human resources, financial management, information technology, and planning through the shared services division, Office of the Secretary. Each division is headed by an administrator appointed by the Secretary of MassDOT.

The legislation established the Massachusetts Transportation Trust Fund (MTTF) within MassDOT, into which all bridge, tunnel and highway tolls, together with certain other funds, are deposited. Transit fares of the Massachusetts Bay Transportation Authority (MBTA) may be deposited into the MTTF upon agreement of MassDOT and the MBTA.

The MTTF is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of MassDOT transferred pursuant to the legislation, as well as debt service on outstanding MassDOT debt (previously held by the dissolved Massachusetts Turnpike Authority). MassDOT debt is not debt of the Commonwealth. The MTTF is not subject to appropriation and year-end balances do not revert to the Commonwealth.

Other activities transferred from the Commonwealth to MassDOT include the following: (1) the Central Artery and Statewide Road and Bridge Infrastructure Fund; (2) the Central Artery Repairs and Maintenance Trust Fund; (3) the Highway Capital Projects Fund; (4) the Federal Highway Construction Program; (5) the Motor Vehicle Inspection Trust Fund; (6) the Owner Controlled Insurance Program (OCIP) Fund related to the Central Artery/Tunnel Project and (7) various other administrative trusts transferred from the Commonwealth.

Other activities transferred from the former Massachusetts Turnpike Authority include the Other Post-Employment Benefits Trust.

The legislation contemplates that the Legislature of the Commonwealth will continue to make capital appropriations for transportation improvements and that such appropriations will continue to be funded through the issuance of Commonwealth debt by the State Treasurer. Outstanding capital spending authorizations are to be made available to MassDOT by the Commonwealth's Secretary of Administration and Finance.

The legislation also established the Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation-related purposes, which receives essentially the same revenues that were deposited into the Commonwealth's Highway Fund, including gasoline tax receipts and registry fees. The CTF shall be subject to appropriation and shall be used for transportation related expenses of the executive office of transportation or any successor agency or authority. In addition, it may pay or reimburse the Commonwealth's General Fund for payment of debt service on bonds issued by or otherwise payable pursuant to a lease or other contract assistance agreement by the Commonwealth for transportation purposes.

Legislation approved by the Governor in fiscal 2010 provides that the CTF will also receive the sales tax receipts (0.385%) dedicated to transportation purposes, with a guaranteed annual payment of $275,000. The guaranteed amount of $275,000 includes $100,000 earmarked for debt service on MassDOT debt, $160,000 earmarked for the MBTA, and $15,000 earmarked for the regional transit authorities. In addition, the CTF is used to pay debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For the year ended June 30, 2013, MassDOT received $344,600 from the CTF for operations ($244,600, which includes $18,500 earmarked for the regional transit authorities) and debt service ($100,000).

Finally, MGL Chapter 235 authorizes the Commonwealth to annually reimburse MassDOT for the cost of the operation and maintenance of the CA/T Project and CANA. MassDOT received $25,000 during the year ended June 30, 2013 for such reimbursement.

MassDOT is a component unit of the Commonwealth. MassDOT's financial statements are incorporated into the financial statements of the Commonwealth.

(b) Basis of Presentation

The accompanying financial statements of MassDOT have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 14.

Blended Component Units – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnotes 15 through 29.

Aggregate Discretely Presented Component Units – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) and one transportation association in the aggregate as component units in the accompanying financial statements: Berkshire Regional Transit Authority; Brockton Area Transit Authority; Cape Ann Transportation Authority; Cape Cod Regional Transit Authority; Franklin Regional Transit Authority; Greater Attleboro-Taunton Regional Transit

Authority; Lowell Regional Transit Authority; Montachusett Regional Transit Authority; Metrowest Regional Transit Authority; Merrimack Valley Regional Transit Authority; Nantucket Regional Transit Authority; Pioneer Valley Transit Authority; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; the Worcester Regional Transit Authority; and Route 3 North Transportation Improvements Association, Inc. MassDOT does not consider any of the discretely presented component units to be major.

The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. MassDOT's governmental activities generally are financed through toll revenues, contract assistance from the Commonwealth, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of net position presents all of the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net position results when constraints placed on asset use is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is MassDOT's policy to use restricted resources first, then unrestricted resources as needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods or services provided by a given function; (2) grants and contributions that are restricted to meeting the operational requirements of a specific function and (3) grants and contributions that are restricted to meeting the capital requirements of a specific function. Other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type activities.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the statement of net position, except for the residual amounts due between governmental and business-type activities.

Fund Financial Statements

MassDOT reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor funds being combined into a single column.

MassDOT is not required to and does not have a legally adopted annual budget for any of its governmental funds.

(c) Measurement Focus and Basis of Accounting

The Government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include expenditure driven federal grants and amounts due from the Commonwealth. MassDOT considers all revenues available if they are collected within 60 days after fiscal year end. For federal expenditure driven grants, revenue is recognized when the qualifying expenditures have been incurred and other eligibility requirements are met and amounts are considered available. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities and expenditures when due. Compensated absences,

claims and judgments, termination benefits, and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

MassDOT reports the following fund types:

Governmental Fund Types

The General Fund is the primary operating fund of MassDOT. It is used to account for and report all financial resources not accounted for and reported in another fund. The MTTF is considered the general fund for MassDOT.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Within the governmental fund types, MassDOT has established the following major fund, in addition to the MTTF:

Highway Capital Projects Fund, a capital projects fund, accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth.

Proprietary Fund Types

Proprietary funds account for programs financed in whole or in part by fees charged to external parties for goods and services. MassDOT reports the MBTA (a blended component unit) as a major enterprise fund. MassDOT also operates one internal service fund – the Owner Controlled Insurance Program.

Revenues and expenses of proprietary funds are classified as operating or nonoperating as follows – operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Fiduciary Fund Types

Fiduciary funds account for assets held in a trustee capacity for others that cannot be used to support MassDOT's programs.

MassDOT reports an Employee Benefits Trust Fund for the assets held in trust for the payment of other post employment benefits (OPEB) for former employees/retirees of the Massachusetts Turnpike Authority. See note 8 for additional information.

MassDOT also reports an Agency Fund, which is used to account for assets held in a custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

(d) Cash and Short-Term Investments

The Treasurer of the Commonwealth (Treasurer) maintains an internal investment pool that invests in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. MassDOT's participation in this pool is presented as cash and short-term investments (both restricted and unrestricted) in the accompanying financial statements.

The securities owned by the Cash Fund are valued at amortized cost which approximates market value. Interest earned on the investment pool is allocated to MassDOT on a pro rata basis.

Restricted cash and short-term investments also include certain amounts restricted for use by bond indentures and other external requirements. Such amounts are held by the Treasurer in the MMDT Cash Fund as well as amounts held by bond and other trustees.

(e) Investments

Investment securities are recorded at fair value, based on quoted market price.

The Treasurer of the Commonwealth can hold certain investments on behalf of MassDOT. In the event investments are held by the Treasurer they appear as "Investments" in the accompanying financial statements. Interest earned on specific MassDOT investments would be allocated to MassDOT. As of June 30, 2013, the Treasurer held no investments on behalf of MassDOT.

Restricted investments include amounts restricted for use by bond indentures and other external requirements and include certain investments held by bond and other trustees.

For purposes of the statements of cash flows, unrestricted investments purchased with a maturity date of three months or less are considered cash equivalents.

(f) Accounts Receivable

Reimbursements due from the Commonwealth for state and federally funded construction project expenditures are reported as "Due from Commonwealth" in the financial statements and are considered 100% collectible. "Due from federal government" receivables include direct grants or reimbursements and are considered 100% collectible. "Other" receivables include rental/lease receivables and toll related receivables, including post paid toll transactions and toll violations. Other receivables are reported net of estimated allowances for uncollectible accounts, which are based on historical trends and individual account analysis.

(g) Capital Assets

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the applicable governmental or business-type activity columns of the government-wide financial statements and proprietary funds and are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer.

Equipment, vehicles, computer equipment and software purchases that equal or exceed $50 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds $100 are capitalized. All land and nondepreciable land improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Type of asset	Estimated useful life (in years)
Buildings	40
Infrastructure – roads, bridges, and tunnels	40
Equipment	10
Computer hardware and software	3 to 7
Vehicles	5

In the government-wide financial statements, depreciation expense is charged to the function to which the capital assets relate.

Construction in progress includes all associated cumulative costs of a constructed capital asset. Construction in progress is relieved and a depreciable capital asset is reported at the point at which an asset is placed in service for its intended use. Interest incurred during the construction phase of capital assets is not capitalized as the debt related to the construction appears on the books of the Commonwealth.

(h) Other Assets

Other assets consist principally of prepaid expenses.

(i) Unearned Revenue

Unearned revenue in the governmental funds financial statements represents monies received in advance of providing goods or services or receivables accrued that do not meet the available criterion in accordance with the current financial resources management focus and the modified accrual basis of accounting. Certain unearned revenue related to receivables not considered available is recognized as revenue in the conversion to the government-wide financial statements, which follow the accrual basis of accounting.

(j) Long-Term Debt

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method. Gains and losses related to refunding transactions are presented as deferred inflows and outflows, respectively, and amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

In the governmental funds, the face amount of long-term debt is reported as other financing sources when the debt is issued. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as Office of the Secretary expenditures.

(k) Fund Balances

The following fund balance classifications describe the relative strength of spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of MassDOT’s Board of Directors, which is the highest level of decision-making authority. Committed amounts may be established, modified, or rescinded only through actions approved by the Board of Directors.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under MassDOT’s structure, this intent can be expressed by the Secretary of Transportation (and Chief Executive Officer), Chief Financial Officer and Controller. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

(l) Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at an approved rate of pay.

In the government-wide and proprietary fund statements of net position, compensated absences are recorded as an expense and liability as the benefits accrue.

For the governmental fund financial statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when they become due and payable upon retirement, termination, or death.

(m) Deferred Inflows and Outflows

MassDOT accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal year 2013, MassDOT has reported deferred outflows pertaining to its derivative instruments and to the deferred losses on its debt refunding transactions. The deferred inflows relate to deferred gains on debt refunding transactions.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(o) Restatement

During fiscal year 2013, MassDOT implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which resulted in

(Dollars in thousands)

the statements of net assets being replaced with the statements of net position in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Net position is displayed in three components – net investment in capital assets, restricted, and unrestricted. In addition, the term "net assets" is changed to "net position" throughout the financial statements.

During fiscal year 2013, the MassDOT also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

As a result of implementing GASB Statement No. 65, MassDOT restated its governmental activities net position at July 1, 2012, by writing off previously deferred bond issue costs. The amount written off was not material.

(2) Deposits and Investments

The Treasurer of the Commonwealth maintains an internal investment pool, in which MassDOT participates, that invests solely in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. Authorized investments for the MMDT Cash Fund include primarily U.S. government and government agency obligations, certificates of deposits, commercial paper, notes and repurchase agreements, all with maturities of one year or less. MassDOT's pro rata share of the internal investment pool is presented in the accompanying financial statements as:

Cash and short-term investments	$	136,516
Restricted cash and investments		977,367
	$	1,113,883

MassDOT follows Chapter 32 of the Massachusetts General Laws with regard to the investment practices of the OPEB Trust. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the "Prudent Person" rule.

MassDOT investments consist of amounts invested by the Treasurer in the MMDT Cash Fund on behalf of MassDOT as well as investments held by the bond and other trustees in accordance with bond indentures and other external requirements.

For investments held by trustees, including investments held by the OPEB Trust, MassDOT has implemented investment policies which incorporate the investment protocols within the Trust Agreements.

(Dollars in thousands)

In most cases, MassDOT has chosen to limit investments to U.S. Government Treasuries or agencies of the U.S. Government. U.S. Government Agency Obligations purchased may include, but not be limited to, debt issued by: the Student Loan Marketing Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

(a) Custodial Credit Risk

At June 30, 2013, all of MassDOT's bank balances were insured and not exposed to custodial credit risk. For deposits held by MMDT Cash Fund, MassDOT had minimal exposure to custodial credit risk.

MassDOT had no custodial credit risk for investments as all investments were either insured or held in MassDOT's name.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. MassDOT does not have a formal policy related to interest rate risk.

MassDOT's investments, including investments in the OPEB Trust, at June 30, 2013 are presented below by investment type and maturity.

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1 year**	**1 – 5**	**6 – 10**	**More than 10**
U.S. Treasuries	$ 34,629	28,511	4,776	—	1,342
U.S. agencies	149,867	119,407	22,585	183	7,692
Money market mutual funds	127,891	127,891	—	—	—
Commercial paper	20,589	20,589	—	—	—
Fixed income securities	10,867	47	3,925	2,705	4,190
International bank discount notes	14,033	14,033	—	—	—
Certificates of deposit	2,238	248	1,990	—	—
MMDT	1,113,883	1,113,883	—	—	—
	1,473,997	$ 1,424,609	33,276	2,888	13,224
Other investments:					
Equity securities	41,940				
Total investments	$ 1,515,937				

(Dollars in thousands)

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2013:

Investment type	Fair value	Quality ratings AAA	AA1-AA3	A1-A3	BAA1-BAA3	BA1-BD	Unrated
Money market mutual funds	$ 127,891	121,177	—	—	—	—	6,714
Commercial paper	20,589	—	—	20,589	—	—	—
Fixed income securities	10,867	2,943	649	2,784	4,443	48	—
International bank discount notes	14,033	14,033	—	—	—	—	—
Certificates of deposit	2,238	—	—	—	—	—	2,238
MMDT	1,113,883	—	—	—	—	—	1,113,883
	$ 1,289,501	138,153	649	23,373	4,443	48	1,122,835

Although the MMDT Cash Fund is not rated, credit ratings associated with the investments of the Cash Fund were either P1 (approximately 97%) or P2 (approximately 3%).

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The investment in the Federal Home Loan Bank ($141,571) is the only issuer where securities at year end exceeded 5% of the total investments of the primary government.

The MMDT Cash Fund has no concentration of credit risk exposure.

(Dollars in thousands)

(e) Restricted Cash and Investments by Fund

The following summarizes restricted cash and investments as of June 30, 2013 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

Held by Treasurer of the Commonwealth:		
General Fund – Toll related accounts as restricted by bond covenants	$	537,390
Major Capital Projects – Statewide Road and Bridge Program		37,418
Major Capital Projects – Federal Highway Construction Program		3,553
Other Governmental Funds – Central Artery Repairs and Maintenance		386,152
Other Governmental Funds – Motor Vehicle Inspection		10,858
Other Governmental Funds – Other		1,996
Held by Bond Trustee:		
General Fund – Toll related accounts as restricted by bond covenants		307,530
Held by OCIP Trustee:		
Internal Service Fund – Workers' compensation self-insurance		20,590
Total	$	1,305,487

(3) Accounts Receivable

Governmental funds accounts receivable at June 30, 2013 consisted of the following:

		Gross accounts receivable	Allowance for uncollectible	Net accounts receivable
Due from Commonwealth	$	298,488	—	298,488
Due from federal government		12,557	—	12,557
Other receivables		57,707	(27,159)	30,548
Total	$	368,752	(27,159)	341,593

(Dollars in thousands)

(4) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2013:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	$ 778,483	114,526	4,137	888,872
Construction in progress	3,497,121	709,110	275,052	3,931,179
Total capital assets, not being depreciated	4,275,604	823,636	279,189	4,820,051
Capital assets, being depreciated:				
Infrastructure	28,005,640	222,997	—	28,228,637
Buildings	125,237	922	—	126,159
Equipment	110,065	3,158	—	113,223
Vehicles	82,536	25,729	2,256	106,009
Software	12,795	4,520	204	17,111
Total capital assets, being depreciated	28,336,273	257,326	2,460	28,591,139
Less accumulated depreciation for:				
Infrastructure	10,240,426	594,548	—	10,834,974
Buildings	62,726	6,819	—	69,545
Equipment	100,490	3,120	—	103,610
Vehicles	64,336	7,901	2,022	70,215
Software	9,409	3,341	204	12,546
Total accumulated depreciation	10,477,387	615,729	2,226	11,090,890
Total capital assets, being depreciated, net	17,858,886	(358,403)	234	17,500,249
Capital assets, net	$ 22,134,490	465,233	279,423	22,320,300

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Highway	$ 612,304
Office of the Secretary	3,417
Registry of Motor Vehicles	8
	$ 615,729

(Dollars in thousands)

(5) Bonds, Notes and Other Long-Term Liabilities

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2013:

	Beginning* balance	Additions	Reductions	Ending balance	Due within one year
Senior revenue bonds:					
Metropolitan Highway System:					
1997 Series A, Capital Appreciation Bonds (CABs), 5.60% to 5.65%, issued September 24, 1997, due 2024 to 2029	$ 42,007	—	—	42,007	—
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate issued May 27, 2010, due 2035 to 2037	207,665	—	—	207,665	—
Borrowings related to associated interest rate swap	3,428	—	79	3,349	82
Metropolitan Highway System:					
2010 Refunding, Series B, 3.00% to 5.00%, issued May 27, 2010, due 2011 to 2037	848,990	—	35,480	813,510	37,790
Metropolitan Highway System:					
1997 Series C, CABs, 5.40% to 5.55%, issued September 24, 1997, due 2016 to 2023	89,136	—	—	89,136	—
Western Turnpike:					
2011 Refunding, Series A, 2.50% to 5.0%, issued November 30, 2011, due 2017	7,375	—	—	7,375	—
Western Turnpike:					
2011 Refunding, Series B, 0.942% to 2.408% issued November 30, 2011, due 2017 (Federally Taxable)	82,735	—	19,565	63,170	18,920
Total senior revenue bonds	1,281,336	—	55,124	1,226,212	56,792

(Continued)

(Dollars in thousands)

	Beginning* balance	Additions	Reductions	Ending balance	Due within one year
Subordinated revenue bonds:					
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate issued April 14, 2010, due 2024 to 2039	$ 592,335	—	—	592,335	—
Borrowings related to associated interest rate swap	12,555	343	353	12,545	370
Metropolitan Highway System:					
2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, due 2019 to 2035	261,220	—	—	261,220	—
Total subordinated revenue bonds	866,110	343	353	866,100	370
Total	2,147,446	343	55,477	2,092,312	57,162
Less unamortized bond discounts	(9,360)	—	(620)	(8,740)	—
Plus unamortized premiums	58,516	—	2,510	56,006	—
Total bonds payable	2,196,602	343	57,367	2,139,578	57,162
Other long-term liabilities:					
Workers' compensation	22,477	4,469	4,948	21,998	4,947
Judgments and claims	92,800	18,497	5,897	105,400	2,700
Compensated absences	44,968	2,496	1,840	45,624	24,863
Environmental remediation	1,983	—	460	1,523	818
Total other long-term liabilities	162,228	25,462	13,145	174,545	33,328
Total long-term liabilities	$ 2,358,830	25,805	70,512	2,314,123	90,490

* Restated to reflect reclassification of deferred loss on refunding ($70,326) to deferred outflows of resources as required by GASB Statement 65.

Interest is payable semiannually on all debt, except on Capital Appreciation Bonds which is accrued over the lives of the Bonds and is payable upon maturity of the Bonds.

Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System and Western Turnpike. In addition, the Commonwealth has pledged $100,000 per fiscal year until June 30, 2039 to provide contractual assistance with repayment of the bonds. These contractual payments constitute dedicated payments from the Commonwealth that are deposited directly to the

(Dollars in thousands)

Subordinated Debt Service Fund. The Commonwealth has also pledged $25,000 per fiscal year until June 30, 2037 to provide contract assistance toward repayment of the senior bonds. These contractual payments constitute dedicated payments from the Commonwealth and are deposited into the Senior Debt Service Fund. The amount of pledged revenue is approximately equal to the remaining principal and interest requirements of the outstanding Metropolitan Highway System and Western Turnpike bonds.

Debt service requirements, excluding derivative borrowings, are as follows:

	Principal	Interest	Total
Year ending June 30:			
2014	$ 56,710	57,994	114,704
2015	77,685	55,874	133,559
2016	58,020	74,442	132,462
2017	56,887	73,729	130,616
2018	40,542	72,792	113,334
2019 – 2023	245,627	343,190	588,817
2024 – 2028	341,929	269,313	611,242
2029 – 2033	441,008	159,793	600,801
2034 – 2038	643,010	16,597	659,607
2039	115,000	116	115,116
Total	$ 2,076,418	1,123,840	3,200,258

As rates change, interest payments on the 2010 Bonds will vary.

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2013:

Description	Redemption date	Redemption price	Principal amount outstanding
Metropolitan Highway System:			
2010 Series A – Subordinated Debt	2024 to 2039	100%	$ 592,335
2010 Series B – Subordinated Debt	2021 to 2035	100	238,210
2010 Series A – Senior Debt	2035 to 2037	100	207,665
2010 Series B – Senior Debt	2021 to 2037	100	593,285

Demand Bonds

Included in long-term debt is $207,665 of Senior and $592,335 of Subordinated variable rate demand bonds. The bonds were issued in May and April 2010, respectively, and the proceeds of the bonds were used to refund certain revenue bonds issued previously by the Massachusetts Turnpike Authority. $100,000 of the Senior bonds and $406,645 of the Subordinated bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and

(Dollars in thousands)

remarketing agent, to purchase such bonds is secured through letters of credit and standby bond purchase agreements with various nationally recognized financial institutions that expire between December 2014 and May 2016. Under generally accepted accounting principles, variable rate demand obligations (VRDO's) are generally classified as current, rather than long-term, liabilities if, among other things, the supporting security agreements expire less than one year after year end.

In 2013, $107,665 of 2010 Series A-2 Senior Bonds and $185,690 of 2010 Series A-4 and A-5 Subordinated Bonds were converted to direct purchase mode to be held by the purchaser for a specific period of time and are not subject to purchase or remarketing at the demand of the holder and therefore do not require a letter of credit or standby bond purchase agreement. The $107,665 Series A-2 Senior Bonds have been purchased through June 2018. The direct purchase agreement on the 2010 Series A-4 Subordinated bonds in the amount of $92,845 expires in May 2019 while the direct purchase agreement on the 2010 Series A-5 in the amount of $92,845 expires in May 2020.

Prior Defeasances of Debt

At June 30, 2013, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

Description	Redemption date	Redemption price	Principal amount outstanding
1993 Series A Term	2014 to 2023	100%	$ 195,940

Derivative Instruments

Interest Rate Swaps/Swaptions

The former Massachusetts Turnpike Authority (the Turnpike) entered into swaptions, which upon exercise became interest rate swaps (hereinafter referred to as Swaps) to (1) lock in long-term fixed rate payments and (2) hedge changes in cash flows on variable-rate bonds due to interest rate risk. As of November 1, 2009 (MassDOT's inception), these Swaps were classified as investment derivatives, as they were not associated with a then existing asset or liability of MassDOT. During the year ended June 30, 2010, these Swaps became associated with and were determined to be effective hedges of the bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. At June 30, 2013, the Swaps continue to be effective hedges of the refunded bonds.

Additionally, the Turnpike received premiums in connection with these Swaps upon issuance of the related swaptions. A portion of the premiums are considered borrowings and are valued separately from the Swaps. The balance of the borrowings at June 30, 2013 totals $15,894 and is presented as part of bonds payable in the accompanying government-wide financial statements.

(Dollars in thousands)

Forward Delivery Agreement

MassDOT's bond trustee has invested certain of the debt service funds it holds through a Forward Delivery Agreement (Agreement). The Agreement, administered by Wells Fargo Bank, N.A., provides MassDOT with a guaranteed rate of return on trustee deposits held for debt payments until such time as payments are due. These deposits are recorded on MassDOT's financial statements at the fair value of the underlying securities provided by Wells Fargo through the Agreement. The Agreement qualifies as an investment derivative instrument and is reported at its fair value of $6,007 as of June 30, 2013. The credit rating of Wells Fargo Bank, N.A. at June 30, 2013, as determined by S&P, was AA-.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2013 financial statements are as follows:

	Changes in fair value		Fair value at June 30, 2013		
	Classification	**Amount debit (credit)**	**Classification**	**Amount debit (credit)**	**Notional**
Governmental activities:					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow	$ (94,120)	Derivative liability	$ (347,588)	770,120
Investment derivatives:					
Pay-fixed interest rate swap	Investment revenue	(2,112)	Derivative liability	(3,604)	29,880
Pay-variable interest rate basis swap	Investment revenue	134	Derivative liability	(7,283)	100,000
Subtotal		(96,098)		(358,475)	
Forward delivery agreement	Investment revenue	208	Derivative asset	6,007	—
		$ (95,890)		$ (352,468)	

The fair values of the interest rate swaps and the Forward Delivery Agreement were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the derivative, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the derivatives.

(Dollars in thousands)

The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2013:

Derivative item	Type	Objective	Effective date	Notional amount	Term. date	Payable swap rate	Receivable swap rate	Premiums received	Fair value at June 30, 2013
Cash flow hedges:									
1	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 senior debt (Series A-1 and A-2)	7/1/2008	$ 207,665	1/1/2037	4.750%	68% of 1 month LIBOR (0.13236%) (a)	$ 10,375	(91,480)
2	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-2)	1/1/2008	83,100	1/1/2037	4.875	68% of 1 month LIBOR	4,391	(36,001)
3	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-1)	1/1/2008	43,625	1/1/2029	5.000	68% of 1 month LIBOR	2,312	(15,809)
4	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-3 through A-6)	1/1/2009	341,500	1/1/2039	4.750	68% of 1 month LIBOR	17,063	(169,492)
5	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-7)	1/1/2009	94,230	1/1/2029	5.000	68% of 1 month LIBOR	4,577	(34,806)
Investment derivatives:									
6	Pay-fixed interest rate swap		1/1/2009	29,880	1/1/2039	4.750	68% of 1 month LIBOR	—	(3,604)
7	Pay-variable interest rate basis swap		10/1/2002	100,000	7/1/2029	SIFMA (0.06%) (a)	67% of 3 month LIBOR	5,350	(7,283)
		Subtotal							(358,475)
8	Forward delivery agreement		—	—	1/1/2029	—	Fixed 5.96%	—	6,007
		Total							$ (352,468)

(a) Rates as of June 30, 2013.

(Dollars in thousands)

Swap Payments and Related Debt

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1-month LIBOR rate (0.13%) and the variable rates (0.05% – 0.13%) on the 2010 Bonds as of June 30, 2013. There is also a fixed rate (fee) component on one of the Senior 2010 bonds and two of the Subordinated 2010 bonds related to Direct Purchase contracts. The fixed rate (fee) is as follows: A-2's (0.75% through June 2018), A-4's (0.70% through May 2019) and A-5's (0.80% through May 2020). The following table reflects debt service requirements through the term of the swap, are as follows:

	2010 Bonds principal	2010 Bonds interest	Interest rate swap, net	Total
2014	$ —	2,986	37,390	40,376
2015	—	2,986	37,390	40,376
2016	—	2,986	37,390	40,376
2017	—	2,986	37,390	40,376
2018	—	2,986	37,390	40,376
2019 – 2023	—	6,788	186,948	193,736
2024 – 2028	109,585	3,802	178,806	292,193
2029 – 2033	106,060	3,326	149,122	258,508
2034 – 2038	469,355	2,409	104,747	576,511
2039	115,000	116	5,310	120,426
Total	$ 800,000	31,371	811,883	1,643,254

As rates change, interest payments on the 2010 Bonds and net swap payments will vary.

Risk Disclosures

Credit Risk – MassDOT is not exposed to credit risk on its hedging derivatives as none of these instruments are in an asset position. However, if interest rates and volatilities change and the fair values of the swaps were to become positive, MassDOT would be exposed to credit risk in the amount of the positive fair values. To mitigate credit risk, MassDOT's counterparties are all rated in the A category or higher by the three rating agencies.

(Dollars in thousands)

The following represents the credit ratings of the swap counterparties at June 30, 2013:

Derivative swap item	Counterparty credit rating (Moody's, S&P and Fitch)
Derivative 1	A2, A, A
Derivative 2	A2, A, A
Derivative 3	A2, A, A
Derivative 4	A2, A, A
Derivative 5	A2, A, A
Derivative 6	A2, A, A
Derivative 7	Aa3, A+, A+

Basis Risk – MassDOT is exposed to basis risk related to its pay-variable receive-variable interest rate basis swap because the pay-variable rate is based on SIFMA and the receive-variable rate is 67% of 3 month LIBOR. MassDOT is also exposed to basis risk from cash flow hedges because the floating rate being hedged on the bonds is determined on a basis different from the floating rate on the swaps of 68% of 1 month LIBOR.

Tax Risk – If maximum tax rates were to decline, it is possible that the 68% of one month LIBOR the MassDOT receives under the 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The MassDOT and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

Termination Risk – MassDOT or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the related variable rate bonds would no longer be hedged. Finally, if at the time of termination the swap has a negative fair value, MassDOT would be liable for a payment equal to the swaps' fair value.

(6) Pledged Revenues

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) and Western Turnpike (WT), to repay $2,076,418 in revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS and WT. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a $100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's $100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues. The total principal and interest (including net swap payments) remaining to be paid on the bonds is $4,012,141. Principal and interest (including net swap

(Dollars in thousands)

payments) paid and pledged revenue received for the year ended June 30, 2013 were $150,450 and $306,693, respectively.

(7) Governmental Fund Balances

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

Governmental Funds – Fund Balance

	MTTF (general)	Highway capital projects	Other governmental funds	Total
Nonspendable:				
Prepaid expenditures	$ 2,677	—	—	2,677
Restricted:				
Debt service	307,530	—	—	307,530
Turnpike (toll) operations and capital reinvestment	403,611	—	—	403,611
Tobin bridge and metropolitan highway system operations	62,688	—	—	62,688
Transportation infrastructure fund	—	37,302	—	37,302
Federal Highway construction program	—	3,553	—	3,553
Central Artery repairs and maintenance	—	—	385,722	385,722
Motor vehicle safety inspection	—	—	10,080	10,080
Registry operations	257	—	148	405
Highway operations	645	—	1,773	2,418
Rail and transit operations	449	—	73	522
Total restricted fund balances	775,180	40,855	397,796	1,213,831
Assigned:				
Insurance reserve	10,518	—	—	10,518
Turnpike operations	9,980	—	—	9,980
Office of the Secretary	—	—	19	19
Highway operations	1,061	—	2,731	3,792
Registry operations	—	—	1,988	1,988
Rail and transit operations	—	—	—	—
Total assigned fund balances	21,559	—	4,738	26,297
Unassigned	6,146	—	—	6,146
Total governmental fund balances	$ 805,562	40,855	402,534	1,248,951

(8) Employee Benefit Plans

(a) Pension Plan

Plan Description. MassDOT participates in the SERS, a defined benefit pension plan administered by the Massachusetts State Retirement System. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The SERS does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

Funding Policy. Plan members are required to contribute 5% to 14% of their annual covered salary, depending upon the date of hire. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 6.76%. The contribution requirements of plan members and the Commonwealth are established and may be amended by the SERS Board of Trustees. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2013 was $17,225, which equaled the required contribution.

(b) Other Postemployment Benefits (OPEB)

Plan Description. MassDOT participates in the Commonwealth's OPEB plan, an agent multiple-employer OPEB plan administered by Commonwealth's Group Insurance Commission (GIC) and governed by the Trustees of the State Retiree Benefits Trust Fund. The Commonwealth's OPEB plan provides retiree health benefits to plan members and beneficiaries. The Commonwealth's OPEB plan does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

Funding Policy. Plan members are required to contribute 0% to 25% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 7.46% based on current payroll. The contribution requirements of plan members are set in General Laws. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2013 was $19,003, which equaled the required contribution.

(c) OPEB Trust Fund

At the inception of MassDOT, the OPEB Trust Fund, an irrevocable trust fund established to fund the OPEB liability of the then current and former retirees and employees of the Massachusetts Turnpike Authority, was transferred to MassDOT who has the fiduciary responsibility for the assets of the Trust. However, legislation required that the OPEB liability for these same individuals become an obligation of the Commonwealth. For fiscal 2013, the Commonwealth has made benefit payments related to the retirees of the former Massachusetts Turnpike Authority but has not been reimbursed for those payments by either MassDOT or the Trust. As of December 11, 2013, it has not been determined whether or how the assets of the Trust can be moved to the Commonwealth and, as such, the OPEB Trust has been presented as a fiduciary fund of MassDOT.

(Continued)

(Dollars in thousands)

(9) Leases

(a) Commitments

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2013 was $13,023. The following is a summary of the future minimum lease payments for operating lease obligations:

		Amount
Years:		
2014	$	10,555
2015		4,226
2016		3,428
2017		1,092
2018		586
2019 – 2023		194
Total	$	20,081

Capital lease obligations are not material to MassDOT's financial statements.

(b) Rental Income

MassDOT leases property and air rights to others. For the year ended June 30, 2013, MassDOT earned $39,762 in rental income. The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2013:

		Amount
Years:		
2014	$	47,514
2015		38,348
2016		35,032
2017		30,967
2018		30,496
Thereafter		634,025
Total	$	816,382

(10) Risk Management

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self insurance (internal retention) and

(Dollars in thousands)

commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the year ended June 30, 2013.

In connection with the self insurance and insurance programs, MassDOT retains part of the losses incurred and internally manages the self insured claims. The current MassDOT self insured retention includes (i) up to $25,000 per occurrence for automobile liability and general liability, (ii) $10,000 per loss for public official liability and privacy & network liability, (iii) $250 per loss involving damage to buildings and their contents, and (iv) $25,500 per bridge and tunnel loss. Insurance is purchased above self-insured amounts, subject to availability and reasonableness of cost. Liability insurance policies related to the former Massachusetts Turnpike Authority's exposures in prior periods (for incurred but not reported claims) have been assigned to MassDOT and remain in force.

(a) Workers' Compensation

MassDOT's fully self-insured workers' compensation program is administered by the Commonwealth of Massachusetts' Human Resources Division (HRD). HRD assumed responsibility for making fair and timely payments of indemnity and medical benefits to injured MassDOT employees, maintaining the claim and financial records and for negotiating appropriate settlements for all workers' compensation claims. This includes all legacy claims from the predecessor entities.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. MassDOT records such liabilities as other liabilities.

The estimated workers' compensation liability for occurrences through June 30, 2013 is $21,998. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2013.

Changes in the workers' compensation claims liability since July 1, 2011 were as follows:

Liability balance, July 1, 2011	$	23,425
Provision to record estimated losses		4,714
Payments		(5,662)
Liability balance, June 30, 2012	$	22,477
Liability balance, July 1, 2012	$	22,477
Provision to record estimated losses		4,469
Payments		(4,948)
Liability balance, June 30, 2013	$	21,998

(Dollars in thousands)

(b) Owner Controlled Insurance Program (OCIP)

MassDOT has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project (Project) by establishing an OCIP. A Trust, managed and administered by an independent third party (trustee), was established to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The insurance coverage provided by the Commonwealth ended on November 1, 2007, except for general liability completed operations coverage, which ended November 1, 2010.

These insurance programs within the OCIP are structured as retrospectively rated insurance programs with retained loss limits of $1,000 per claim, $3,000 on aggregate per occurrence for worker's compensation and $2,000 per contractor, $6,000 on aggregate per occurrence for general liability coverage. MassDOT is responsible for loss costs up to these amounts.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2013 is $10,400. This amount is based on the results of a review performed by an independent actuarial firm and it represents an estimate of liabilities incurred based on past experience for claims incurred and not reported as of June 30, 2013. Any residual amount remaining at the end of the program will be transferred to the TIF.

Changes in the claims liability since July 1, 2011 were as follows:

Liability balance, July 1, 2011	$	24,100
Provision to record estimated losses		(6,725)
Payments		425
Liability balance, June 30, 2012	$	17,800
Liability balance, July 1, 2012	$	17,800
Provision to record estimated losses		(1,503)
Payments		(5,897)
Liability balance, June 30, 2013	$	10,400

(11) Environmental Remediation

Governmental Accounting Standard Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASBS 49) provides guidance in estimating and reporting the potential costs of pollution remediation. While GASBS 49 does not require MassDOT to search for pollution, it does require MassDOT to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- MassDOT is compelled to take pollution remediation action because of an imminent endangerment;

(Dollars in thousands)

- MassDOT is found in violation of a pollution prevention–related permit or license;
- MassDOT is named, or evidence indicates that it will be named as a responsible party by a regulator;
- MassDOT is named, or has evidence that it will be named in a lawsuit to enforce a cleanup, or
- MassDOT commences or legally obligates itself to commence pollution remediation.

MassDOT reports a pollution remediation liability as of June 30, 2013 of $1,523 using the expected cash flow technique. Under the technique, MassDOT estimated a reasonable range of potential outlays and multiplied those outlays by their probability of occurring. This liability could change over time due to price fluctuations, changes in remediation technology, changes in potential responsible parties, results of environmental studies, or changes in laws and regulations governing the remediation efforts.

During the fiscal year, MassDOT had the following activity related to pollution remediation:

Environmental remediation liability, beginning of year	$	1,983
Expected additional future outlays, increasing liability estimates		—
Fiscal year 2013 outlays for environmental remediation		460
Environmental remediation liability, end of year	$	1,523

The accrued total liability as of June 30, 2013 is presented in other liabilities in the statement of net position. Expected payments of $818 due within one year is shown in the current liabilities, whereas the remaining portion of estimated liability of $705 is included in the noncurrent portion of long-term liabilities.

(12) Commitments

MassDOT enters into construction contracts for roads, bridges, highways (including the Metropolitan Highway System and Western Turnpike) with various construction and engineering companies. Significant construction contracts outstanding at June 30, 2013 approximated $2,465,000.

(13) Litigation

MassDOT from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which MassDOT's liability is covered in whole or in part by insurance. MassDOT does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

MassDOT has agreed to take responsibility for all costs to complete the Central Artery/Tunnel Project that are in excess of the $14,798,000 budget provided in the CA/T Finance Plan. At this time, MassDOT has identified no financial obligations pursuant to this agreement as it is anticipated that all costs to complete the CA/T Project, including costs related to additional exposures for claims, will be within the budgeted amount.

The most significant claim at this time involves Contract C11A1. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of $157,800. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board (DRB) panel. As of June 30, 2013, MassDOT has accrued $95,000 related to these claims.

(14) Subsequent Events

Adoption of Fiscal Year 2014 Budget

Subsequent to year-end, MassDOT's fiscal year 2014 operating budget was approved for $996 million. This amount will be funded from operating revenues ($440 million from the CTF from initial appropriation and potential supplemental funding of $48 million for snow and ice operations), pledged and unpledged revenues ($341 million), motor vehicle inspection trust fund ($31 million), reserves ($29 million) and other revenues ($107 million) including departmental, leases, gaming and investment income.

(15) The Massachusetts Bay Transportation Authority

The Massachusetts Bay Transportation Authority (the Authority) was originally created in 1964 as a body politic and corporate/political subdivision of the Commonwealth of Massachusetts (the Commonwealth).

The Enabling Act was amended in connection with the reform of the Commonwealth's transportation system. The Authority remains a separate entity within the Massachusetts Department of Transportation (MassDOT). On August 10, 2012, the Governor approved Chapter 242 of the Acts of 2012, the Transportation Bond Bill passed by the Legislature funding various transportation initiatives within the Commonwealth. Section 3(b) of the legislation revised the governance of MassDOT, to be governed by a seven member board appointed by the Governor. Each member shall be appointed for a four year term, with the Secretary of Transportation serving as an ex officio director. Four of the five members of the prior board of MassDOT from November 2009 were reappointed with two new members appointed as of September 11, 2012. Of the appointees of the Governor, two shall be experts in the field of public or private transportation finance, two shall have practical experience in transportation planning and policy and one shall be a registered civil engineer with at least 10 years' experience. One of the directors shall be appointed chairperson of the board provided however that said designee shall not be an employee of the Authority, MassDOT or any division thereof. The board has the power to appoint and employ a general manager and other officers. The advisory board, consisting of a representative from each of the cities and towns paying assessments, shall have certain specified powers, including the power to review the Authority's long term capital program and annual operating budget.

On May 4, 2011, the Authority approved the establishment of Metropolitan Boston Transit Parking Corporation (MBTPC) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. The MBTPC System-wide Senior Lien Parking Revenue Bonds, Series 2011 were issued on June 22, 2011. The Authority is the sole member of MBTPC and the Board of Directors consists of three

ex officio management employees of the Authority. MBTPC has no employees. MBTPC is authorized under the System-wide Parking Revenue Bonds Resolution (the General Resolution) to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the General Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity*, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units, other than the MBTPC, were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the MassDOT, as the Authority is a component unit of the MassDOT.

(16) MBTA – Summary of Significant Accounting Policies

(a) Basis of Financial Reporting

The Authority applies U.S. generally accepted accounting principles (GAAP) as prescribed by GASB. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenues and expenses are reported as nonoperating revenues and expenses.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. After this date, only GASB pronouncements are followed.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are reported as temporary cash investments.

(d) Restricted Cash and Investment Accounts

Certain cash and investments are segregated from operating cash due to certain internal or external restrictions as follows:

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent investments (Treasury STRIPS and a collateralized investment agreement) held by trustees that will be used to make scheduled equity payments on the Authority's capital leases.
- Bond Reserve Accounts – represent funds required to be maintained by trust agreements and bond resolutions.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent internally restricted funds held for capital maintenance, debt service, and other expenses.

(e) Capital Assets

All capital assets exceeding $5, with a useful life of greater than one year, are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs. Ordinary maintenance and repairs are charged to expense as incurred.

Depreciation of capital assets is computed using the straight line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2013:

	Estimated useful life
Ways and structures	10 – 60 years
Building and equipment	3 – 25 years

(f) Construction in Progress

During fiscal year 2013, $468,889 was expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of debt issuance until the

entire drawdown of the proceeds, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silver Line Transitway and several vehicle fleet procurements. Accordingly, in fiscal year 2013, the Authority had no material capitalized interest.

(g) Materials and Supplies

Materials and supplies are stated at average cost and include items to support the Authority's operations.

(h) Self-Insurance

The Authority is fully self-insured for various risks including workers' compensation, injuries and damages, and employee health claims. The Authority also self-insures a portion of casualty, liability claims, and property losses.

(i) Revenue Recognition

The Authority realizes revenue from a variety of different sources including but not limited to dedicated sales tax revenue, dedicated assessment revenue, dedicated state appropriated funds, fare revenue and nonfare revenue such as real estate, parking and advertising revenues.

The dedicated sales tax revenue consists of the greater of one percent of statewide sales tax, excluding the meals tax or a base revenue amount. The base revenue amount generally increases by the percentage change in inflation, as measured by the Boston Consumer Price Index (CPI), although not to exceed three percent annually. The Authority recognizes the greater of its share of the month's total actual receipts of sales tax revenue of the Commonwealth or the base revenue amount as nonoperating revenue on an accrual basis.

The dedicated assessment revenue consists of the obligation of 175 cities and towns in the Authority's expanded district to pay assessments for transportation services and benefits rendered. The Commonwealth deducts the assessments from each municipality's local aid payments; as such these payments are received from the Commonwealth. The Authority recognizes the assessments on an accrual basis as nonoperating revenue.

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation–related purposes, to receive essentially the same revenue previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenue. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of $275,000. The Commonwealth appropriated $160,000 from the CTF to the Authority in fiscal year 2013. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

The Authority generates significant revenue from the operation of its transportation system, including both fare revenue and nonfare revenue such as those derived from real estate, parking and advertising. Fare revenue is recorded on an accrual basis as operating revenue when fare media is purchased by riding customers through fare vending equipment and pass programs administered by the Authority. Real estate, parking and advertising revenue is recorded on an accrual basis as operating revenue upon reporting of independent contractors managing these revenue streams on behalf of the Authority.

(j) Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

(k) Compensated Absences

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2013 was $17,250.

(l) Lease Accounts

Lease accounts represent amounts owed by third parties that are required to be used to pay lease payments under payment undertaking agreements on the Authority's capital leases (note 20).

(m) Pension Plans

In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which was amended by GASB Statement No. 50, *Pension Disclosures*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has adopted these standards for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the Annual Required Contributions (ARC) to the pension plan, calculated in accordance with certain parameters (note 27).

(n) Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenue, expenses, and changes in net position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required

contribution, a postemployment benefit liability is recognized on the balance sheet over time (note 28).

(o) Environmental Remediation Costs

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method and in a range of possible estimated amounts has been recognized for certain pollution remediation obligations. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations or other factors, which could result in the revision of these estimates (note 25).

(p) Derivatives

Derivative instruments are reported as assets or liabilities at fair value on the statement of net position. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net position, or as deferred inflows or deferred outflows of resources in the statement of net position depending upon whether the derivative instrument qualifies for hedge accounting.

(q) Available Unrestricted Resources

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

(r) Deferred Inflows and Outflows

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2013, the Authority reported deferred outflows pertaining to its derivative instruments and to the deferred losses on its debt refunding transactions. The deferred inflows represent the resultant gains from two debt refunding transactions.

(s) Restatement

During fiscal year 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which resulted in the statements of net assets being replaced with the statements of net position in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Net position is displayed in three components – net investment in capital assets, restricted, and unrestricted. In addition, the term "net assets" is changed to "net position" throughout the financial statements.

During fiscal year 2013, the Authority also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously

reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

As a result of implementing GASB Statement No. 65, the Authority restated its net position at July 1, 2012 from $2,603,452 to $2,575,570 as a result of writing off previously deferred bond issue costs.

(17) Deposits and Investments

The Authority's investment policy is to only invest in securities named in the respective trust agreements.

The Authority is authorized by its board of directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures.

Obligations of any agency or instrumentality of the United States of America including, but not limited to the following may be acceptable as collateral to secure certificates of deposit or other instruments:

(A) Federal Home Loan Banks

(B) Federal Land Banks

(C) Federal Intermediate Credit Banks

(D) Bank for Cooperatives

(E) Federal National Mortgage Association

(F) Federal Farm Credit Banks

The Authority may invest in prime commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's Investor Services (Moody's) or A-1 by Standard and Poor's (S&P). These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money-market-like investment fund managed by the Commonwealth, established under General Laws, Chapter 29, Section 38A.

Marketable securities, which consist primarily of U.S. government instruments, are carried at fair value based upon quoted market prices. The Authority's investment in MMDT is carried at unit value, which approximates fair value. Other short-term money market-like investments, including auction rate securities, are carried at cost that approximates fair value. Nonparticipating interest-earning contracts, including certificates of deposit and guaranteed investment contracts, are carried at cost.

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2013:

Restricted:		
Bond construction accounts	$	132,157
Bond reserve, stabilization, and other accounts		589,027
Lease deposits		68,732
Subtotal		789,916
Unrestricted cash and temporary cash investments		249,018
	$	1,038,934

Included in bond reserve, stabilization, and other accounts at June 30, 2013 are investments in Commonwealth debt instruments with a fair value of $43,976.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2013 was $158,221. The bank balance at June 30, 2013 was $159,290. Of this amount, $8,599 was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation (FDIC) limit of $250 per institution at June 30, 2013.

(b) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority follows the guidelines in the Authority's trust agreements, and does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2013 are presented below. All investments are presented by investment type and maturity.

		Investment maturities (in years)			
Investment type	**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 238,697	238,697	—	—	—
Money market funds	103,122	103,122	—	—	—
Guaranteed investment contracts	1,343	—	—	—	1,343
Treasury STRIPS	68,732	—	22,996	—	45,736
U.S. treasury securities	64,328	—	—	—	64,328
Government-sponsored enterprises	218,860	173,052	—	7,695	38,113
Municipal Bonds	43,976	—	—	—	43,976
International Bank notes	55,005	55,005	—	—	—
Certificates of deposit	86,650	86,650	—	—	—
Investments	$ 880,713	656,526	22,996	7,695	193,496

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,343 at June 30, 2013. These investments are not rated.

The Authority had $177,036 in U.S. Treasury STRIPS, U.S. Treasury Securities and municipal bonds as of June 30, 2013. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government. The municipal bonds have an implied credit rating of Aaa/AA+.

The Authority has $218,860 invested in Government-Sponsored Enterprises (GSE) as of June 30, 2013. These investments have an implied credit rating of AAaa/AA+ or they have been collateralized to AAA.

The Authority has $238,697 invested in MMDT as of June 30, 2013, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has $244,777 invested in money market funds, international bonds, commercial paper and certificates of deposit as of June 30, 2013. These investments are not rated.

(Dollars in thousands)

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The issuers where securities at year-end exceeded 5% of the total investments, other than U.S. government obligations and mutual funds, are as follows:

	Credit rating by Moody's/S&P	Fair value	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$ 111,286	12.6%
Int'l Bank for Reconstruction & Development	N/A	55,005	6.3
		$ 166,291	18.9%

(18) Pledged Revenues

The Authority has pledged, as security for Sales Tax Series Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved CIP, and are payable through 2041. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2013, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2013 was $789,562 and $193,795 respectively, a total of $983,357. As of June 30, 2013, total annual debt service paid during fiscal year 2013 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $532,567. As of June 30, 2013 debt service represented 54% of pledged revenues.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011. The total annual debt service commenced on July 1, 2011 with a debt service requirement of $15,373 in fiscal year 2013, which represents 37% of $41,144 revenue in the fiscal year 2013.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds and MBTPC Bonds outstanding as of June 30, 2013 are $8,993,917.

(Dollars in thousands)

(19) Net Investment in Direct Financing Lease

The Authority entered into a direct financing lease related to the underground parking garage structure located at Nashua Street and Legends Way in the city of Boston effective on June 6, 2012. The lease is for a subsurface building area with five levels of parking with a capacity for 1,275 automobiles. The lease agreement is for a 75-year term with an initial rent payment of $50,000 paid on the commencement date of the lease. Future annual base rent payments will commence on the tenth anniversary of the lease, June 6, 2022, and continue for a 30-year period. The lessee has the right within five years following the effective date to prepay the then outstanding balance of the annual base rent, without penalty, in the amount of $21,700 plus 5% annual interest compounded from the effective date of the lease to the date of prepayment. After the fifth year of the initial term has passed, no prepayment of the then outstanding balance will be allowed or accepted. The Authority has deferred the unearned interest income and will recognize it utilizing the effective interest method over the lease term until such time as the lessee determines whether the operational impact of the exercise of the option is prudent and feasible.

The following lists the components of the net investment in direct financing lease as of June 30, 2013:

Total minimum lease payments to be received	$	68,981
Less payment on lease at execution		—
Net minimum lease payments receivable		68,981
Less unearned income		(47,769)
Net investment in direct financing lease	$	21,212

(20) Lease Obligations

(a) Lease-In/Lease-Out (LILO)

The Authority has entered into various lease/sublease financing arrangements for heavy rail, commuter rail cars, and buildings. These agreements provide for the lease of the property and equipment owned by the Authority to a financial-party lessee and the sublease of such equipment back to the Authority for various periods. At the time of these transactions, funds were deposited with financial institutions sufficient to meet all payment obligations under the terms of the lease agreements and U.S. Treasury STRIPS were purchased in an amount sufficient to satisfy each agreement’s purchase option price provided for in the leases.

(b) Cross-Border Leases and Other Capital Lease Arrangements

The Authority had entered into cross-border leases related to the financing of heavy rail cars. Provisions in these leases allowed for the Authority to sell and lease back the equipment over a period of years. Additionally, the lease agreements included a purchase option granting the Authority the right to purchase the equipment at the end of the lease terms. The Authority had deposited funds with financial institutions sufficient to meet all of its payment obligations under the terms of the

(Continued)

(Dollars in thousands)

leases. On December 16, 2011, the Authority exercised its purchase option and terminated its cross-border lease.

Transportation property and facilities under capital leases are summarized in the capital assets note (note 21).

The following is a schedule by year of future minimum lease payments under the LILO and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2013:

Fiscal year(s):		
2014	$	57,675
2015		12,991
2016		1,127
2017		675
2018		50
2019 – 2023		—
2024 – 2028		—
2029 – 2033		27,324
2033 – 2036		18,414
		118,256
Less amount representing interest		(3,600)
Present value of net minimum lease payments		114,656
Less current principal maturities		(42,651)
Obligations under capital leases	$	72,005

The liability for these leases changed in 2013 as follows:

Outstanding at June 30, 2012	$	149,167
Net change in obligation		(34,511)
Outstanding at June 30, 2013	$	114,656

(c) Operating Leases

The Authority had entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases matured in 2013. At the end of the lease terms, the Authority purchased the vehicles at prices equal to the lesser of a stated percentage (40% – 70%) of the lessors' original purchase price or residual fair market value. As of June 30, 2013, the Authority did not have any outstanding operating lease obligations.

(Dollars in thousands)

(21) Capital Assets

Capital assets at June 30, 2013 are as follows:

		Beginning balance June 30, 2012	Increases	Decreases	Ending balance June 30, 2013
Capital assets not being depreciated:					
Land	$	312,383	438	514	312,307
Construction work in progress		525,328	555,247	380,724	699,851
Total capital assets not being depreciated		837,711	555,685	381,238	1,012,158
Other capital assets:					
Ways and structures		9,762,308	272,355	—	10,034,663
Buildings and equipment		2,400,679	47,584	7,577	2,440,686
Buildings and equipment included in capital lease		397,009	2,557	6,415	393,151
Total		12,559,996	322,496	13,992	12,868,500
Less accumulated depreciation for:					
Ways and structures		3,585,497	223,467	—	3,808,964
Buildings and equipment		1,374,596	145,072	4,533	1,515,135
Buildings and equipment included in capital lease		278,846	7,123	9,391	276,578
Total		5,238,939	375,662	13,924	5,600,677
Other capital assets, net		7,321,057	(53,166)	68	7,267,823
Capital assets, net	$	8,158,768	502,519	381,306	8,279,981

(22) Long-Term Debt

(a) Bonds Payable

The Enabling Act authorizes the Authority to issue general obligation debt, revenue, or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts, or other assets or funds of the Authority beginning July 1, 2000.

Debt issued by the Authority prior to and outstanding as of June 30, 2000 (prior obligations) is backed by the full faith and credit of the Commonwealth to the extent that revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments

on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2013, prior obligations in the amount of $388,760 are outstanding.

Debt issued by the Authority after June 30, 2000 (new debt) will not be supported by the Commonwealth's guarantee. Additionally, the Authority is not expected to receive any principal or interest subsidies from the Commonwealth for the repayment of the prior obligations and new debt of the Authority, unless authorized by special legislation.

No bonds were issued by the Authority during fiscal year 2013.

GTS bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1 and interest is payable semiannually on March 1 and September 1. The GTS bonds were issued to provide funds for the financing of the Authority's transportation properties.

The Authority issued commercial paper notes in the amount of $20,000 during fiscal year 2013 to fund debt service payment on prior obligations of the Authority. The Authority paid off $31,000 during fiscal year 2013 also. The balance of $107,375 was outstanding as of June 30, 2013. At June 30, 2013, the total commercial paper notes included CP Sales Tax Series A in the amount of $66,125 with a weighted average nominal rate 0.538% and CP Sales Tax Series B in the amount of $41,250 with a weighted average nominal rate 0.309%.

Boston Metropolitan District (BMD) bonds were issued for transit purposes prior to the formation of the Authority in 1964. Certain series of BMD bonds were refunded after 1964.

(Dollars in thousands)

The Authority's bonds outstanding at June 30, 2013 are as follows:

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 1,725	1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00%	36,165	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	88,420	43,250
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	11,920	3,910
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	14,160	6,590
1998 Series A Bonds dated February 15, 1998	2015	5.50%	18,685	9,090
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	30,460	14,690
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	7,020	7,020
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	180,205	5,845
			388,760	92,120
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	4,040	2,030
			4,040	2,030

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
Revenue bonds:				
2003 Series A Senior Sales Tax Bonds dated January 29,2003	2021	4.00% – 5.25%	$ 104,350	1,030
2003 Series C Senior Sales Tax Bonds dated February 3, 2004**	2023	Variable	217,055	16,410
2004 Series A Senior Sales Tax Bonds dated February 3, 2004	2016	5.00% – 5.25%	14,265	—
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00% – 5.25%	428,215	26,670
2004 Series A Assessment Bonds dated June 10, 2004	2021	3.00% – 5.25%	3,480	—
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.50% – 5.50%	319,320	24,205
2005 Series A Senior Sales Tax Bonds dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bonds dated September 8, 2005	2035	3.20% – 5.00%	59,845	1,390
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40% – 5.50%	92,125	55
2006 Series A Senior Sales Tax Bonds dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bonds dated December 5, 2006	2023	5.00% – 5.25%	198,325	10,720
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00% – 5.00%	66,290	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—
2007 Series A-1 Senior Sales Tax Bonds dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bonds dated May 24, 2007	2037	Zero Coupon	177,608	—

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
Revenue bonds:				
2008 Series A-1 Senior Sales Tax Bonds dated April 2, 2008*	2026	Variable	$ 131,910	—
2008 Series A-2 Senior Sales Tax Bonds dated April 2, 2008*	2026	Variable	123,015	650
2008 Series B Senior Sales Tax Bonds dated April 30, 2008	2033	3.00% – 5.25%	47,405	1,235
2008 Series A Assessment Bonds dated November 13, 2008	2034	4.00% – 5.25%	236,905	—
2009 Series B Senior Sales Tax Bonds dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax Bonds dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax Bonds dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax Bonds dated April 6, 2010	2035	2.00% – 5.00%	76,480	1,300
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bonds dated June 21, 2012	2024	5.00%	407,165	—
			4,242,588	163,920
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC Bonds dated June 22, 2011	2041	4.00% – 5.25%	304,585	—
			304,585	—

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
Revenue Build America (BABs) Bonds:				
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	$ 218,300	—
2010 Series D Senior Sales Tax dated December 8, 2010	2040	4.546% – 5.869%	210,000	—
			428,300	—
Bond Anticipation Notes (BANs)	2014	0.48% – 0.71%	107,375	107,375
Total bonds and notes payable			5,475,648	$ 365,445
Less current maturities			(365,445)	
Total long-term bonds payable			5,110,203	
Plus unamortized bond premiums			325,225	
Less unamortized bond discounts			(1,264)	
Total long-term bonds payable			$ 5,434,164	

* These bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. The interest rate as of June 30, 2013 is 0.10% for the 1999 Series VRDO. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94,000) and 2000 Series A-2 VRDO ($94,000). The interest rates as of June 30, 2013 are: 0.12% for the 2000 Series A-1 VRDO; 0.05% for the 2000 Series A-2 VRDO; 0.07% for the 2008 Series A-1 Senior Sales Tax Bond and 0.07% for the 2008 Series A-2 Senior Sales Tax Bond.

** The 2020 maturity in the amount of $25,005 is variable debt based on the MUNI-CPI rate, plus 79 basis points.

*** The 2024 maturity in the amount of $19,260 and the 2025 maturity in the amount of $5,000 is variable debt based on the MUNI-CPI rate, plus 123 basis points.

(Dollars in thousands)

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 9 basis points. The Authority classifies these bonds short-term as it does not have a standby purchase agreement for the remarketing window. The Authority does not foresee the bonds being called.

The principal and interest maturities of bonds and notes payable as of June 30, 2013 are as follows:

		Principal	Interest
Fiscal year(s):			
2014	$	365,445	327,439
2015		173,620	251,057
2016		150,520	241,003
2017		191,705	231,531
2018		211,955	221,317
2019 – 2023		1,269,044	928,932
2024 – 2028		1,192,841	668,142
2029 – 2033		993,995	408,650
2034 – 2038		609,778	210,966
2039 – 2043		316,745	29,232
Total	$	5,475,648	3,518,269

A summary roll-forward of bonds for the year ended June 30, 2013 is as follows:

		Balance 2012	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2013
GTS	$	494,700	—	105,940	—	—	388,760
BMD		6,080	—	2,040	—	—	4,040
Revenue		4,329,136	—	94,665	—	8,117	4,242,588
BABs		428,300	—	—	—	—	428,300
BANs		118,375	20,000	31,000	—	—	107,375
MBTPC		304,585	—	—	—	—	304,585
	$	5,681,176	20,000	233,645	—	8,117	5,475,648

(Dollars in thousands)

The following funds, included in restricted assets at June 30, 2013 are in connection with the Authority's revenue bond trust agreements:

		Assessment bonds	Sales tax bonds	MBTPC bonds	GANs
Debt service	$	61,823	202,203	8,243	—
Debt service reserve		71,553	197,564	12,986	—
	$	133,376	399,767	21,229	—

The minimum required balances in the debt service reserve funds at June 30, 2013 were $184,019 for the Sales Tax Series Bonds and $34,763 for the Assessment Bonds. The minimum required balance in the debt service reserve funds at June 30, 2013 for MBTPC Bonds is $12,986. The Authority has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to meet its capital needs. The Authority has a $250,000 commercial paper program, of which $150,000 is administered by JPMorgan and $100,000 by Barclays Capital Inc. The Authority's commercial paper program (or BANs) has been assigned short-term ratings of P-1 by Moody's and A-1+ by S&P. The Authority had $107,375 in outstanding commercial paper as of June 30, 2013.

(b) Debt Refundings

In current and prior years, the Authority defeased in-substance several GTS, Sales Tax Series, and Assessment Series Bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2013, $1,079,095 of these bonds are considered defeased in-substance, are still outstanding, respectively.

(c) Derivative Instruments

The Authority has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps). When the Authority has entered into Swaps, the Authority has done so in order to: (1) provide lower cost fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long-term fixed rate returns on invested assets in its required reserve funds; (3) create synthetic refinancing with cash flow savings realized as the Authority designates; or (4) create a synthetic fixed rate for the purchase of vehicular fuel for fixed periods of time rather than being exposed to unpredictable variations in fuel prices on the spot market. All Swaps for which the Authority received an upfront payment are considered hybrid instruments. The premiums/up-front payments are reported as a borrowing and included in the long-term liability unearned revenue and

(Dollars in thousands)

other on the statement of net position and the Swaps are reported based on the at-the-market rates at the time of execution.

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counter party	Fair value at June 30, 2013
Cash flow hedges:									
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 180,205	2030	5.00%	67% of LIBOR	$ 12,230	(42,290)
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.00	CPI+79 basis points	—	(1,649)
4	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	19,260	2024	5.00	CPI+123 basis points	607	(972)
5	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	5,000	2025	5.00	CPI+123 basis points	142	(259)
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,910	2021	4.00	SIFMA	3,067	(17,291)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	123,015	2026	3.00	62% of LIBOR plus 24 basis points	116	(14,557)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	6.00	SIFMA	4,140	(26,521)
									(103,539)
Investment derivatives:									
2	Pay – fixed interest rate swap (a)	Originally to hedge changes in cash flows on variable rate debt	February 2003	81,810	2022	5.00	SIFMA	4,586	(14,273)
									(14,273)
									$ (117,812)

(Dollars in thousands)

The aggregate fair value balance of the derivative instruments at June 30, 2013 is $(117,812), and is reflected on the Authority's statements of net position as a liability for derivative instruments. Of this liability, $103,539 at June 30, 2013, was offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2013, the Authority determined that the investment derivative instruments do not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net position.

The fair values of the interest rate swaps were calculated by a third–party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an "at the market rate" in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Expected cash flows are discounted using the U.S. Dollar Swap curve provided by independent third parties such as Bloomberg.

Swap Payments and Associated Debt

As of June 30, 2013, debt service requirements of the GTS Series 2000 VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR is 0.130% and the variable rate on the 2000 Bonds is 0.085% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

Fiscal year(s) ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2014	$ 5,845	152	8,680	14,677
2015	6,250	146	8,389	14,785
2016	6,690	141	8,078	14,909
2017	7,160	135	7,744	15,039
2018	7,660	129	7,387	15,176
2019 – 2023	47,130	535	30,649	78,314
2024 – 2028	66,100	299	17,143	83,542
2029 – 2032	33,370	34	1,923	35,327
Totals	$ 180,205	1,571	89,993	271,769

(Dollars in thousands)

As of June 30, 2013, debt service requirements on the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 4.400% plus 79 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

Fiscal year(s) ending June 30		2003 Series C Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2014	$	—	1,298	(265)	1,033
2015		—	1,298	(265)	1,033
2016		—	1,298	(265)	1,033
2017		—	1,298	(265)	1,033
2018		—	1,298	(265)	1,033
2019 – 2021		25,005	2,596	(442)	27,159
	$	25,005	9,086	(1,767)	32,324

As of June 30, 2013, debt service requirements on the 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the CPI rate of 4.400% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2014	$	—	282	(49)	233
2015		—	282	(49)	233
2016		—	282	(49)	233
2017		—	282	(49)	233
2018		—	282	(49)	233
2019 – 2023		—	1,408	(243)	1,165
2024 – 2026		5,000	563	(97)	5,466
	$	5,000	3,381	(585)	7,796

As of June 30, 2013, debt service requirements on the 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the CPI rate of 4.440%

(Dollars in thousands)

plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2014	$	—	1,084	(185)	899
2015		—	1,084	(185)	899
2016		—	1,084	(185)	899
2017		—	1,084	(185)	899
2018		—	1,084	(185)	899
2019 – 2023		—	5,422	(924)	4,498
2024 – 2025		19,260	1,084	(185)	20,159
	$	19,260	11,926	(2,034)	29,152

As of June 30, 2013, debt service requirements on the 2008 Series A-1 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.06% and the variable rate on the 2008 Series A-1 Senior Sales Tax Bonds is 0.07% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-1 Senior Sales Tax Bonds principal	2008 Series A-1 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2014	$	135	92	4,973	5,200
2015		735	92	4,945	5,772
2016		765	91	4,917	5,773
2017		18,990	78	4,200	23,268
2018		19,745	64	3,455	23,264
2019 – 2022		91,540	105	5,629	97,274
	$	131,910	522	28,119	160,551

As of June 30, 2013, debt service requirements on the 2008 Series A-2 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the 62% of LIBOR plus 24 basis points is 0.361% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is

(Dollars in thousands)

0.07% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-2 Senior Sales Tax Bonds principal	2008 Series A-2 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2014	$	515	86	3,335	3,936
2015		535	85	3,320	3,940
2016		550	85	3,305	3,940
2017		570	85	3,290	3,945
2018		585	84	3,274	3,943
2019 – 2023		26,060	398	15,490	41,948
2014 – 2027		94,200	94	3,637	97,931
	$	123,015	917	35,651	159,583

As of June 30, 2013, debt service requirements on 2010 Series A Senior Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.06% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.06% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

Fiscal year(s) ending June 30		2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2014	$	—	119	4,420	4,539
2015		—	119	4,420	4,539
2016		—	119	4,420	4,539
2017		—	119	4,420	4,539
2018		—	119	4,420	4,539
2019 – 2023		—	597	22,101	22,698
2024 – 2028		41,565	446	16,500	58,511
2029 – 2031		38,080	59	2,194	40,333
	$	79,645	1,697	62,895	144,237

Risk Disclosure

Credit Risk – Because all of the Authority's Swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of exposure to this risk at the reporting date is the fair value of the swaps in an asset position, as shown in the columns labeled fair value in the tables above. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for long-term swaps are rated in the A category by both Moody's and S&P. To further mitigate credit risk, the Authority's swap documents require counterparties to post collateral for the Authority's benefit if they are downgraded below a designated threshold.

The following represents the credit ratings of the counterparties as of June 30, 2013:

Derivative swap item	Counterparty credit rating Moody's/S&P
Derivative 1	A2/A
Derivative 2	Aa3/A+
Derivative 3	A3/A
Derivative 4	A2/A+
Derivative 5	A2/A+
Derivative 6	A2/A+
Derivative 7	A2/A+
Derivative 8	A2/A+

Basis Risk – The Authority is exposed to basis risk when the floating rate the Authority receives under the swaps is different from the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. Refer to tables above for basis for swap and bond variable rates and the actual rates in place at year–end.

Termination Risk – The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

Rollover Risk – Rollover risk is the risk that occurs when the term of the swap does not match the term or maturity of the debt associated with the hedge. The Authority is subject to rollover risk for those swaps that hedge its variable rate demand obligations in the event the Authority is not able to remarket those instruments as anticipated.

(Dollars in thousands)

(23) Commitments and Contingencies

(a) Capital Investment Program (CIP)

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2013, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding source		Approved project costs	Expenditures through June 30, 2013	Unexpended costs
Federal grants	$	7,070,834	6,568,273	502,561
State and local sources		2,407,644	2,149,221	258,423
Authority bonds		5,703,102	5,416,829	286,273
Total	$	15,181,580	14,134,323	1,047,257

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Other cases and claims include disputes with contractors and others arising out of the Authority's CIP. In the opinion of the general counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately $534,216 at June 30, 2013.

(b) Legal and Other

The Authority is involved in numerous lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the general counsel to the Authority, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

(Dollars in thousands)

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

(24) Risk Management

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health insurance claims.

Buildings are fully insured to the extent that losses exceed the self–insured retention of $2,500 effective March 1, 2010. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority pays 85% of all health premiums up to a maximum of $200 per individual for all Blue Cross plans and $100 per individual for Harvard and Tufts plans. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the GIC. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

The Authority self-funds a $7,500 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for $67,500 of layered coverage on a per-occurrence and annual aggregate basis. In the opinion of the general counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

During fiscal year 2013, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $38,419. Expenditures for claims related to workers' compensation were $8,778, and expenditures for the self-insured health plans were $122,820 for the year ended June 30, 2013.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers' compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2013, and 2012. Changes in the self-insurance liabilities in fiscal years 2013, and 2012 were as follows:

		2013	2012
Liability, beginning of year	$	101,805	97,503
Provisions for claims		169,747	159,784
Payments		(146,960)	(155,482)
Liability, end of year	$	124,592	101,805

(Dollars in thousands)

(25) Environmental Remediation Obligations

Effective July 1, 2008, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The statement requires a government entity to estimate its expected outlays for pollution remediation if it knows that a site is polluted based on specific recognition triggers and disclose those obligations associated with cleanup efforts.

The Authority is responsible for the cleanup of leaking fuel storage tanks in facilities owned by the Authority, or parcels of land acquired as part of transit expansions. The Authority is currently managing six active storage tank sites in various stages of remediation and monitoring. The Authority has a number of years of experience in managing these cleanups and the assessment of costs for these types of cleanups. The amount of the estimated pollution remediation liability assumes there will be no major increases in the cost of providing these cleanup services.

The Authority is responsible for a facility where Polychlorinated Biphenyls (PCBs) have been detected in the building caulk. Caulk containing PCBs is frequently found in buildings built or renovated between 1950 and 1978. PCB containing caulk is no longer manufactured and is required to be removed under federal regulations. The maintenance building was found to contain such PCB containing caulk and as a result, a remediation program is now underway as part of the rehabilitation of the building.

During the year ended June 30, 2013, the following changes occurred in the liabilities:

		Balance as of July 1, 2012	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2013
Storage tank remediation sites	$	5,646	6,056	(1,052)	10,650
Sites with PCB remediation		6,500	2,050	(50)	8,500
Vapor Intrusion 21E		—	750	—	750
	$	12,146	8,856	(1,102)	19,900

The payments for remediation costs combined with revised cost completion estimates totaling $7,754 in fiscal year 2013, are recorded in the other operating expenses in the statements of revenue, expenses and changes in net position. The accrued total liability as of June 30, 2013 included in the long-term accrued liabilities in the statement of net position was $19,900.

(26) Commuter Railroad

Under the Authority's Enabling Act, Massachusetts General Laws, Chapter 161A, Section 3(f), the Authority may enter into agreements with private transportation companies, railroads, and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

The Authority entered into an operating agreement with Massachusetts Bay Commuter Railroad Company (MBCRC) effective July 1, 2003 to provide commuter railroad service over the Authority's rail lines. The contract was initially for a period of five-years, with a renewable five-year extension, which was approved and became effective July 1, 2008. The Authority paid MBCRC a total fixed base contract amount of $2,661,786 over the ten-year period through June 30, 2013.

On April 25, 2013, the Authority and MBCRC agreed to extend the operating agreement for one additional year, effective July 1, 2013. As of June 30, 2013, the Authority has remaining fixed base contract payments for the fiscal year 2014 extension totaling $302,920.

(27) Retirement Plans

The Authority provides retirement benefits to employees through four defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan, the MBTA Qualified Deferred Compensation Plan, and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan, a single-employer plan, provide retirement, disability, and death benefits. The MBTA Retirement Plan issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan does not issue separately audited financial statements.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain executive and Local 453 (collective bargaining unit) employees after retirement. Employees may participate in both the MBTA Retirement Plan and the MBTA Deferred Compensation Plan. The MBTA Deferred Compensation Plan does not issue separately audited financial statements.

The Authority created a qualified deferred compensation plan effective January 1, 2001. The plan is designed to supplement the Authority's Retirement Plan (Main Fund). Covered employees include all actively employed nonunion employees who are participating in the Authority's Main Fund or the Police Association Retirement Plan. Employees are eligible after ten years with the Authority, if they have reached age 30 and are paid as part of the executive payroll. The plan currently provides benefits for 290 retirees. The MBTA Qualified Deferred Compensation Plan does not issue separately audited financial statements. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal year 2013 was minimal and no contributions were made to this plan in fiscal year 2013. In addition, the net pension obligation is considered immaterial.

(a) Funding Policy and Annual Pension Cost

The board of trustees of each retirement plan establishes the contribution requirements; however, the Authority may amend these requirements.

(Dollars in thousands)

The MBTA Retirement Plan's member contribution rate was increased from 5.1489% to 5.4989% of pretax compensation effective August 11, 2012. The Authority's contribution rate was increased from 14.1011% to 15.1511% effective July 7, 2012. These contribution rates were calculated based on the December 31, 2011 actuarial valuation of the MBTA Retirement Plan. As of June 30, 2013, the actuarial update to the MBTA Retirement Plan required a combined contribution rate of 20.0927%.

The contribution requirements for the MBTA Police Association Plan were 17.1825% in 2013 and 15.4130% in 2012 for the Authority and 7.2850% for employees in both 2013 and 2012. Both were determined in accordance with actuarial valuations. Actual contributions made in 2013 were in accordance with these contribution requirements. Deferred compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the year ended June 30, 2013 and related information for each plan is as follows:

Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$	75,065	3,072	7,781
Contributions made – Authority		56,556	2,273	6,287
Actuarial valuation date/update		June 30, 2013	June 30, 2013	June 30, 2013
Actuarial cost method		Entry age	Entry age	Entry age
Amortization method		Level dollar	Level dollar	Level dollar
Amortization period		30 years	30 years	30 years
Asset valuation method		5-year smoothing	4-year smoothing	5-year smoothing
Actuarial assumptions:				
Interest rate		8.00%	7.00%	7.50%
Projected salary increases		4.00	3.50	4.00

Changes in the net pension obligation for these plans for the year ended June 30, 2013 are as follows:

Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(68,296)	(2,274)	(11,394)
Annual pension cost		(75,065)	(3,072)	(7,781)
Contributions and other adjustments		56,556	2,273	6,287
Net pension obligation, end of year	$	(86,805)	(3,073)	(12,888)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending		Annual pension cost (APC)	Percentage of APC contributed		Net pension obligation
MBTA Retirement Plan	June 30, 2011	$	66,075	79%	$	(46,574)
	June 30, 2012		74,587	71		(68,296)
	June 30, 2013		75,065	75		(86,805)
MBTA Police Association Plan	June 30, 2011	$	2,798	76%	$	(1,826)
	June 30, 2012		2,520	82		(2,274)
	June 30, 2013		3,072	74		(3,073)
MBTA Deferred Compensation Plan	June 30, 2011	$	5,770	90%	$	(9,261)
	June 30, 2012		7,520	72		(11,394)
	June 30, 2013		7,781	81		(12,888)

(c) Actuarial Funded Status

MBTA Retirement and Police Association Plans

Valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	(Funded) unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Retirement Plan:								
December 31, 2011	$	1,550,446	2,276,750	726,304	68.1%	$	366,535	198.2%
Police Association Plan:								
December 31, 2011	$	54,023	75,456	21,433	71.6%	$	17,112	125.3%

MBTA Deferred Compensation Plan

The MBTA Deferred Compensation Plan is not currently funded; as a result, the normal schedule of funding progress would show no provision having been made for the cost of this plan.

(Continued)

(Dollars in thousands)

In the table below, column (b) which normally would have contained the plan's assets, contains instead the net pension obligation (amounts previously charged against operations but not yet contributed to the plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

Valuation date		Actuarial accrued liability (a)	Net pension obligation (b)	Actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)		Covered payroll (f)
July 1, 2012	$	58,583	11,394	47,189	19.4%	80.6%	$	46,376

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(d) The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Plan. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 5.149% of total covered payroll with the Authority contributing 8%. The plan has approximately 271 members at June 30, 2013, and the cost of the Plan to the Authority was $779 for fiscal year 2013. Member contributions vest to plan members immediately, while contributions made by the Authority vest to plan members as follows: 50% after three years; 75% after four years; and 100% after five years of credited service.

(28) Other Postemployment Benefits

In addition to providing the pension benefits described, the Authority provides OPEB for retired employees under any of the medical benefit programs then offered and available by the Authority. Those benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of the June 30, 2011 actuarial valuation, approximately 5,296 retirees and 5,307 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

(a) Benefits Provided

The Authority provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(b) Funding Policy

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. A total of 470 affiliated active employees and retirees transferred to the GIC during fiscal year 2013. As of June 30, 2013 a total of 4,308 employees and retirees have transferred to GIC

Retirees' pre– and post-65 entering into GIC health insurance coverage with a retirement date on or before July 1, 1994 contribute 10% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement prior to August 10, 2009 contribute 15% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement on or after August 10, 2009 but on or before October 1, 2009 with a retirement date on or before January 31, 2010 contribute 15% of the cost of the health plan. Retirees who file for retirement after October 1, 2009 will contribute 20% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

Currently, the remaining affiliated population covered by collective bargaining agreements has not transitioned into the GIC due to the expiration dates and/or rollover provisions in their collective bargaining agreements. The provisions of the MBTA plans utilized by these retirees provide that any retiree pre age 65 with a retirement date on or before July 7, 2008 does not contribute to the cost of the health plans. Retirees, pre age 65, who retired after July 7, 2008, contribute 10% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis. The health coverage for post-age-65 retirees remains 100% Authority paid.

(Dollars in thousands)

(c) Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The June 30, 2011 actuarial valuation established the ARC for fiscal year 2012 and 2013. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2013, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

ARC	$	192,594
Interest on net OPEB obligation		16,767
Amortization adjustment to ARC		(28,766)
Annual OPEB cost		180,595
Contributions made		(57,715)
Change in net OPEB obligation		122,880
Net OPEB obligation – beginning of year		490,253
Net OPEB obligation – end of year	$	613,133

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal year ended		Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
2013	$	180,595	32.0%	$	613,133
2012		183,610	32.9		490,253
2011		141,022	41.3		367,053

The Authority's net OPEB obligation as of June 30, 2013 is recorded as "Other postemployment benefits" line item.

(Dollars in thousands)

(d) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of June 30, 2011, is as follows:

Actuarial accrued liability (AAL)	$	2,016,063
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	2,016,063
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	418,388
UAAL as a percentage of covered payroll		481.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 3.42% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 7.75% for retirees in year one, 7.25% for all in year two, 6.75% in year three, 6.25% in year four, 5.75% in year five, 5.25% in year six, 5.00% in year seven, and 5.00% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

(29) Subsequent Events

The Authority and Local 589, Amalgamated Transit Union, AFL-CIO, CLC were parties to a collective bargaining agreement that had expired on June 30, 2010. The parties negotiated to reach a new agreement until February 28, 2012 when a mediator certified the parties had bargained in good faith and that an impasse continued so the case was prepared for arbitration. An arbitrator was selected and hearings commenced on September 10, 2012 and ended on May 6, 2013. On August 26, 2013, an arbitration award was announced with general wage increases of 2.5%, 2.5%, 2.0%, 2.0% and 1.0% as of July 1, 2010, 2011, 2012, 2013 and 2014, respectively. A full accrual of the associated costs through June 30, 2013 is included in the financial statements.

On July 25, 2013 Chapter 46 of the Acts of 2013, An Act Relative to Transportation Finance was enacted by the Legislature. The transportation Finance Act provided funding for various transportation services and infrastructure needs within the various units of MassDOT. The Commonwealth increased the appropriated amount by $115,200 to $275,200 from the CTF to the Authority for fiscal year 2014. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Massachusetts Transportation Trust Fund

Combining Balance Sheet

June 30, 2013

(Dollars in thousands)

Assets		**Metropolitan Highway System**	**Western Turnpike**	**Tobin Bridge**	**Other operations**	**Total**
Cash and short-term investments	$	—	—	—	48,047	48,047
Restricted cash and investments		610,078	166,505	68,338	—	844,921
Receivables, net of allowance for uncollectibles:						
Due from federal government		—	—	—	97	97
Other		24,889	4,490	196	973	30,548
Other assets		1,950	523	32	172	2,677
Total assets	$	636,917	171,518	68,566	49,289	926,290
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued expenditures	$	25,712	10,898	5,685	19,800	62,095
Unearned revenue		54,057	4,153	162	261	58,633
Total liabilities		79,769	15,051	5,847	20,061	120,728
Fund balances:						
Nonspendable		1,950	523	32	172	2,677
Restricted		555,198	155,944	62,687	1,351	775,180
Assigned		—	—	—	21,559	21,559
Unassigned		—	—	—	6,146	6,146
Total fund balances		557,148	156,467	62,719	29,228	805,562
Total liabilities and fund balances	$	636,917	171,518	68,566	49,289	926,290

See accompanying independent auditors’ report.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Massachusetts Transportation Trust Fund

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2013

(Dollars in thousands)

		Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total MTTF
Revenues						
Toll revenue:						
Pledged as security for revenue bonds	$	189,841	116,852	—	—	306,693
Unpledged		—	—	31,017	—	31,017
Commonwealth transportation fund:						
Operations		—	—	—	244,600	244,600
Metropolitan highway system bonds		100,000	—	—	—	100,000
Central artery operations and maintenance		25,000	—	—	—	25,000
Commonwealth grants and contract assistance		—	—	—	36	36
Federal grants and reimbursements:						
Direct		—	—	—	146	146
Rental/lease income		10,382	24,581	—	4,799	39,762
Investment income		2,206	261	67	427	2,961
Departmental and other		14,298	6,948	3	9,835	31,084
Total revenues		341,727	148,642	31,087	259,843	781,299
Expenditures:						
Current:						
Highway		142,154	103,868	32,261	124,781	403,064
Office of the Secretary		21,592	8,250	263	21,844	51,949
Registry of motor vehicles		—	—	—	59,345	59,345
Rail and Transit		—	—	—	121,736	121,736
Aeronautics		—	—	—	540	540
Debt service:						
Principal		35,480	19,565	—	—	55,045
Interest		93,582	1,823	—	—	95,405
Total expenditures		292,808	133,506	32,524	328,246	787,084
Excess (deficiency) of revenues over expenditures		48,919	15,136	(1,437)	(68,403)	(5,785)
Other financing sources (uses):						
Transfers in		—	—	—	51,000	51,000
Sale of land		—	—	—	6,924	6,924
Total other financing sources (uses)		—	—	—	57,924	57,924
Net change in fund balances		48,919	15,136	(1,437)	(10,479)	52,139
Fund balances at beginning of year		508,229	141,331	64,156	39,707	753,423
Fund balances at end of year	$	557,148	156,467	62,719	29,228	805,562

See accompanying independent auditors' report.